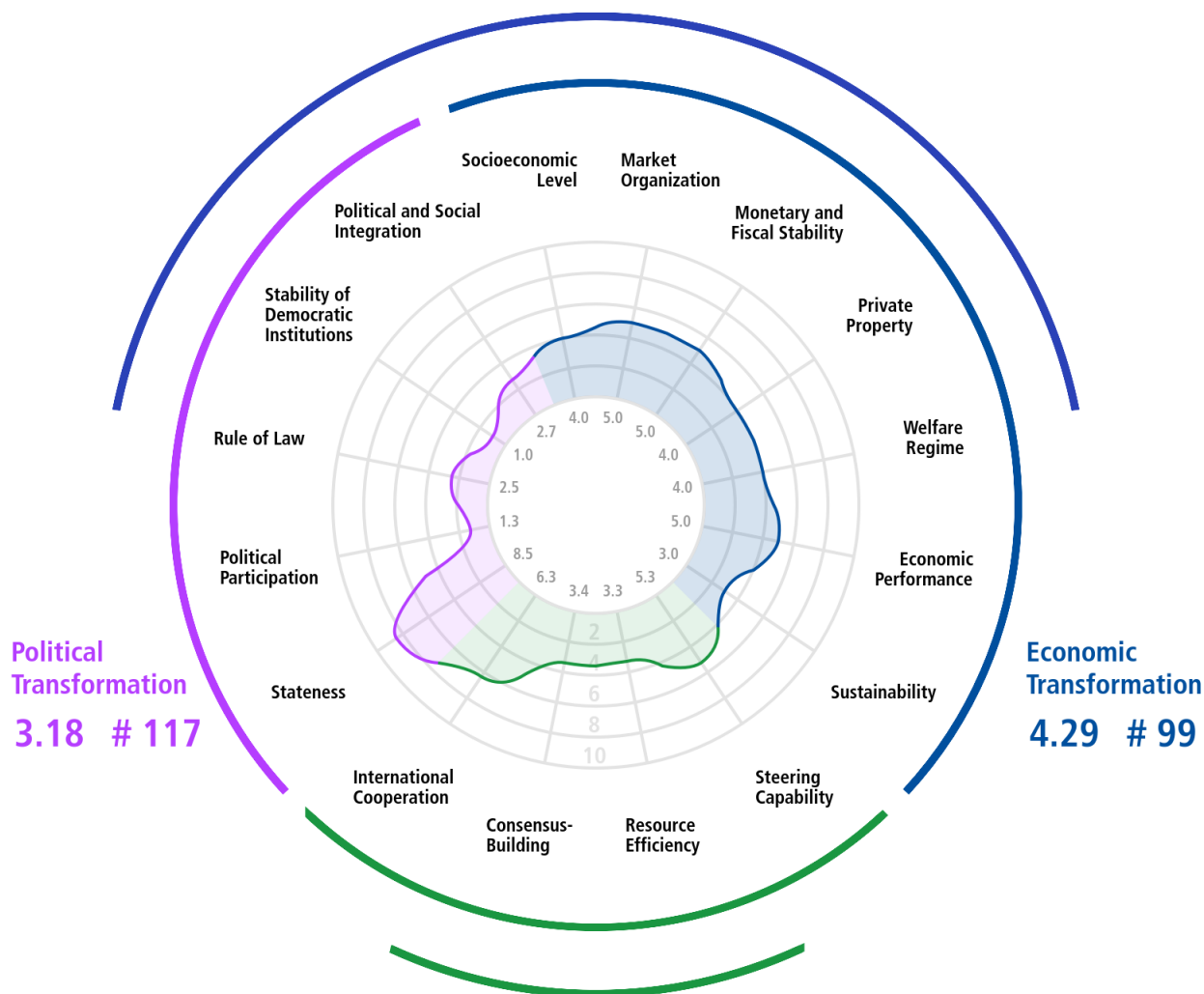


Laos

Status Index

3.73 # 112

on 1-10 scale out of 137



Governance Index

4.23 # 90

on 1-10 scale out of 137

This report is part of the **Bertelsmann Stiftung's Transformation Index (BTI) 2022**. It covers the period from February 1, 2019 to January 31, 2021. The BTI assesses the transformation toward democracy and a market economy as well as the quality of governance in 137 countries. More on the BTI at <https://www.bti-project.org>.

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Key Indicators

Population	M	7.3	HDI	0.613	GDP p.c., PPP \$	8234
Pop. growth ¹	% p.a.	1.5	HDI rank of 189	137	Gini Index	38.8
Life expectancy	years	67.9	UN Education Index	0.481	Poverty ³	% 37.4
Urban population	%	36.3	Gender inequality ²	0.459	Aid per capita \$	88.1

Sources (as of December 2021): The World Bank, World Development Indicators 2021 | UNDP, Human Development Report 2020. Footnotes: (1) Average annual growth rate. (2) Gender Inequality Index (GII). (3) Percentage of population living on less than \$3.20 a day at 2011 international prices.

Executive Summary

While Laos largely avoided the health impacts of COVID-19, the pandemic's economic consequences exposed existing vulnerabilities, and left the country at the precipice of fiscal and debt crises. At the 11th national congress of the Lao People's Revolutionary Party (LPRP), held in January 2021, the LPRP reinforced key elements of the regime's high-stakes economic strategy but also hinted that the pandemic had encouraged a shift in economic emphasis.

Even before the pandemic hit, Laos's economic transformation had started to slow in 2019. While GDP growth had eased from 8.0% in 2013 to 6.3% in 2018, it dropped to 4.7% in 2019, as a result of natural and human-caused disasters that slowed growth in agriculture and power generation. In addition, inflation had started to climb due to rising food prices, while the fiscal deficit, public debt, current account deficit and falling international reserves suggested long-standing structural vulnerabilities in the economy had not been alleviated.

The Lao government acted decisively to prevent the spread of COVID-19. It closed international and provincial borders to human traffic (though not goods) on March 30, 2020, and implemented a shutdown with limited exemptions for essential activities and services. With the spread of the virus quickly contained, restrictions were eased from May and most were lifted by July – with the exception of international arrivals and departures. By January 2021, the National Taskforce Committee for COVID-19 Prevention and Control had reported only 42 cases of COVID-19 in the country, resulting in zero deaths. Notwithstanding the government's low testing rate, these figures represented one of the world's lowest rates of COVID-19 infection and a clear endorsement of the government's public health strategy. Besides the containment of the virus, the government earned plaudits for uncharacteristically open communication through televised daily press briefings, and the circulation of official announcements and decrees on social media. Despite isolated reports of unwarranted arrests for breaching social distancing measures – or in one case broadcasting such a

breach on social media – the government’s response was reasonable, proportional and supported by the public.

The economic impact of the pandemic was another matter, as the country slumped into recession for the first time in over 20 years. Although power generation and agriculture continued to grow, the pandemic virtually stopped travel and tourism, disrupted supply chains and manufacturing, and meant that migrant worker remittances and overflight fees paid to the government dried up. Although government spending actually fell, revenue fell faster due in part to income tax relief. Unfortunately for the government, the widening fiscal deficit coincided with rising debt-service payments together with a growing current account deficit and dwindling foreign reserves. In August and September, Moody’s and then Fitch downgraded Laos’s credit rating to their lowest levels, warning of a potential debt default. Although the pandemic brought Laos’s debt problems to the fore, the underlying cause – as the government conceded – was over-borrowing for as-yet unproductive hydropower assets. Laos chose not to sign up to the World Bank’s Debt Service Suspension Initiative (DSSI), apparently preferring direct debt restructuring arrangements with China, its largest creditor. In one apparent example, Electricité du Laos (EdL), the state power enterprise that holds a large proportion of public debt, joined with a Chinese state enterprise to form EdL-Transmission to develop the Lao transmission network and generate increased exports.

At the LPRP’s 11th national congress at the end of the review period, Prime Minister Thongloun Sisoulith succeeded Bounnhang Vorachit as party general secretary, while Vice President Phankham Viphavanh leapfrogged two rivals to become the second most powerful person in the party hierarchy. Lower down the central committee, there was a major cleanout of mid- and senior-level cadres. It is possible that these changes will lead to greater focus on party and state governance, including anti-corruption activities. The congress’s most significant indicator of change may prove to be the party’s adoption of a reduced growth target of 4% p.a. for 2021–25, down from 7.5% five years earlier, together with an increased emphasis on the stability, quality and sustainability of economic growth. Nevertheless, the LPRP remains committed to its resource-based strategy for development, particularly hydropower, and acknowledges the country’s economic dependence on China, and other lenders and investors that this strategy implies. Moreover, while the LPRP continued to advocate the development of a legal framework, this continued to be conceived in statist terms of strengthening party and state governance, and control over development and society, rather than in terms of political liberalization or human rights.

History and Characteristics of Transformation

The Lao People's Revolutionary Party (LPRP) came to power in 1975 in a nation devastated by the environmental, emotional, social, political and economic toll of a decade's long civil war ensnared in the Second Indochina War. The new regime, a Marxist-Leninist system modeled on that of the Democratic Republic of Vietnam, faced a daunting series of tasks, including that of unifying a divided population, rebuilding after one of the most intensive bombing campaigns ever perpetrated, extending state infrastructure to remote and mountainous regions, and securing subsistence under the punitive economic sanctions that followed their rise to power. Despite these early challenges, the LPRP achieved important early wins, including dramatic improvements in literacy and effective cessation of hostilities, in their first decades in power. They also negotiated and legislated a constitution in 1991, which ushered in a wide range of legal reforms, such as marriage and family law, which had not been systematically applied in Laos until that time.

Upon coming to power, the LPRP expanded the collectives that had been so effective in the Pathet Lao zones in supplying the front during the war years. However, throughout the 1980s, the party shifted toward support for a "multi-sectoral" or hybrid economy, defined as a "market economy regulated by the government." The party officially still retains the achievement of socialism as a future objective. Restrictions on internal trade were removed and a free market was introduced for agricultural produce. The government also liberalized international trade and sought foreign investment. As in the adoption of reforms in China and Vietnam, this transition took place without any corresponding political liberalization. An array of supporting measures were introduced over the next decade: 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; closer attention to macroeconomic stability (improved budgetary and monetary policy, reduced state subsidies, civil service cuts, and a new tax framework); and the privatization of most state-owned enterprises (SOEs), with the exception of about 20 that were designated "strategic." At the same time, the state retained a central coordinating role through what became the Ministry of Planning and Investment.

By the mid-1990s, these measures were producing the desired economic effect of improving resource allocation and spurring economic growth, although the country remained highly dependent on official development assistance (ODA), especially for infrastructure development. In 2013, Laos qualified for membership of the WTO (2013) and, in 2015, for the ASEAN Economic Community.

Over time, this LPRP strategy of balancing market and state-led approaches has become increasingly formalized through the passage of legislation as it seeks to implement the legal sector master plan (2009), the aim of which is to make Laos a "rule-of-law state." With a steady increase in investment, especially in hydropower, mining, commercial agriculture and tourism, economic growth surged by an average of almost 8% per annum between 2005 and 2015. The global financial crisis of 2008/09 reduced the quantity of FDI originating from the West, but this was

soon replaced by increased investment from Asian nations, especially Thailand, China and Vietnam. Annual GDP growth exceeded 8% in the period 2010 to 2013 and remained robust, despite tailing off slightly, until 2019. Not untypically for transitional economies, rapid growth came at the cost of rising inequality, but this was exacerbated in the case of Laos by the resource-intensive nature of growth. In addition, the large-scale granting of state land concessions for mining, hydropower and commercial agricultural development resulted in the widespread dispossession of farmers' land and communal forests. This period of increasing prosperity also coincided with a growing political culture of corruption, undermining efforts to reign in the informal sector. Especially in the provinces, public money was used for private gain, complicating center-province relations. Anti-corruption legislation was enacted and a new campaign launched around the time of the LPRP congress in 2016. However, while low-level officials have been disciplined and some provincial governors have lost their jobs, no senior political figure has yet been publicly prosecuted.

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

Transformation Status

I. Political Transformation

1 | Stateness

The ruling Lao People’s Revolutionary Party (LPRP) has maintained its monopoly on the use of force during the period under review. The threat formerly posed by Hmong insurgents and other opponents of the regime was neutralized some years ago. Between 2015 and 2017, there were several attacks on buses and private vehicles in Xaysomboun Province, an area where Hmong insurgents formerly operated, but there was no indication that these were related to past incidents. Rather, Chinese workers were killed in these attacks, leading to speculation that they were related to disquiet over Chinese-backed development projects. The last attack of this kind appears to have occurred in 2017. Seemingly unrelated, an unidentified armed group allegedly attacked a Lao military unit in the same province July 2020, killing one. However, military officers have been appointed governor of the province since 2016 and, in January 2021, Governor Major General Khamlieng Outhakaisone announced that armed violence in the province had been “resolved.”

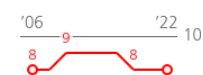
Laos is an ethnolinguistically diverse society comprising 50 official ethnic groups, with the politically dominant ethnic Lao accounting for just over half of the national population. Since coming to power in 1975, the LPRP government has explicitly adopted an ethnically inclusive definition of national citizenship, as indicated in a ubiquitous phrase referring to the “Lao people of all ethnicities.” However, both the nationality and “race” of all ethnic groups, as indicated on identity papers, is officially “Lao.”

Although there were small but significant exceptions in the past, particularly among some ethnic-Hmong, the vast majority of the population accepts as legitimate the dominant concept of the nation-state. Nevertheless, Lao officials reportedly still discriminate against minority ethnic groups in rural areas, particularly by pressuring them to give up or modify shifting cultivation, traditional marriage practices and religious activities. Non-Buddhist minorities are often officially classified as “animist,” a term which is used as a contrast to Buddhism in ways that downplay the sophistication and complexity of these other religions.

Question
Score

Monopoly on the
use of force

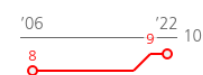
8



1

State identity

9



1

In addition, a small number of non-Lao citizens (45,000), mostly from Vietnam and China, also reside in Laos. (The official figure probably underestimates the real number, however, which is increasing due to irregular migrant labor). Members of the Lao diaspora (both ethnic Lao and non-ethnic Lao) are officially considered to be of Lao “race” but not nationality. Laos does not recognize dual nationality, but diasporic Lao with foreign citizenship may invest and live in Laos.

Laos is a Marxist-Leninist state firmly anchored in secular governance. At the same time, religion is a major element of everyday life in Laos. According to the 2015 census, 64.7% of the population adhere to Theravada Buddhism. Most of the remainder is officially classified as having “no religion,” which in most cases means they are oriented toward local religions, known colloquially “spirit religion” (often translated into English as “animist”).

The Lao state is secular, and the law and political institutions do not discriminate, *de jure*, against non-Buddhists. Non-Buddhists do have access to high-ranking positions in the National Assembly and the LPRP central committee, and approximately 30% of central committee members are non-Lao. The constitution adopted in 1991 appoints the state as the protector of all cultures in Laos, but also tasks it with eliminating any form of “negative” culture. While the constitution officially enshrines religious freedom, non-Buddhist proselytism is closely surveilled and those converting to Christianity (usually ethnic minorities) are occasionally persecuted. However, this is motivated more by fear of foreign (Western) influence, a kind of “negative culture,” than by religious dogma.

The mountainous topography of Laos has historically presented a challenge to the state’s jurisdiction, the provision of basic services, transportation and communication. Against this background, and working from a low base, the LPRP regime has steadily improved access to services, partly through its policy of resettling villages to create “focal zones” with better access to services.

At the national level, access to improved sanitation and water sources has increased markedly over the past decade (from 43% and 57%, respectively, in 2005 to 71% and 76% in 2015), as has access to health care and education. Perhaps the brightest spot is the government’s rural electrification program, which has seen access to electricity improve from just 15% of households in 1995 to 94% in 2017. Together with improved roads and communications in remote areas, development of focal zones has also helped to improve the state’s jurisdiction, law enforcement and tax authorities, though the large informal sector and low base from which the government is working means that access to services in remote and mountainous areas remains uneven and inefficient.

In addition, focal zones have in many cases caused development-induced poverty or hardship, as people are relocated away from their fields, established homes and livelihoods in return for services that often remain sub-standard. Services are

No interference of religious dogmas

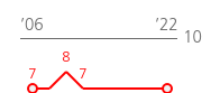
10



1

Basic administration

7



1

sometimes provided in rural and remote areas through local levies. For instance, a village may be required to build its own school, feed school inspectors who visit by foot and maintain the paths along which such officials travel. These levies are often resented by populations who reason that the state should provide services like these. Local services may also be provided by local concession holders, NGOs and multilateral agencies. Nevertheless, restrictions of services due to the COVID-19 lockdown were generally lifted in a timely manner between May and July 2020.

2 | Political Participation

Legislative elections are held every five years – with scheduled elections in February 2021 falling outside the review period – but these are not open elections. All candidates are vetted by the party-controlled Lao Front for National Development. Although some candidates campaign quite vigorously on local and development issues, none express anything more than mild criticism of the government. Criticisms are aired in the National Assembly (including a “hot line” to the National Assembly for citizens to directly report their grievances). However, a pervasive sense that engaging in criticism of the government is dangerous and that national unity is more important serves to stifle much dissent. People’s Provincial Assembly elections, which took place for the first time in 2016, are seemingly subject to the same party domination as the national elections. Village heads are elected by adult village residents, but the nominees must be approved by the party.

The LPRP has control or oversight over all political institutions, including the executive and the National Assembly. Other potential veto players are either central components of the political structure, such as the politburo, central committee and military, or have been accepted as key partners of it, as in the case of business interests – who struggle if they lack the requisite political connections. Though functioning at times as a feedback channel, the increased voicing in recent years of local issues noted in the elected National Assembly does not equate to political openness or even a modest form of “semi-democracy.” The assembly’s legislative program is driven by the party leadership, of which the National Assembly president is a key member. Likewise, while a National Assembly hotline enables citizens to voice grievances, it provides no formal guarantee of participation or response. Nevertheless, statements and initiatives by the outgoing Thongloun Sisoulith government (2016–2021) showed awareness of the need to address concerns that had been previously voiced in the National Assembly, such as illegal logging, land concessions and compensation.

Free and fair elections



Effective power to govern



Assembly and association rights are severely curtailed. There are no opposition political parties nor is there freedom of assembly. Organized public protests and demonstrations are rare. When they do occur, organizers and participants are typically arrested and imprisoned for lengthy periods. The government's 2009 decree on associations (revised in 2017) permitted non-profit associations (NPAs). The decree is explicit in requiring NPAs to support state development plans and to operate in line with government policies. After a crackdown on NPAs in 2012–13, the 2017 revisions added additional bureaucratic barriers to registration, extended the range of prohibitions applied to NPAs, and required government approval of all sources of foreign funding.

Association /
assembly rights

1
'06 _____ '22 10

1 ————— 1

The government's response to the COVID-19 pandemic prohibited people from leaving their homes (except to buy food and other essentials, go to hospital, or carry out other authorized activities); prohibited gatherings of more than 10 people; and closed provincial and international borders, except for the transportation of goods. These measures were time limited and proportional. As it became clear that the spread of the virus had been contained, most restrictions – except those on international travel – were eased between May and July 2020.

Media organizations and the press are controlled by the LPRP through the Ministry of Information and Culture. There is no plurality of political opinion in the state-controlled media and while independent lifestyle magazines have proliferated such publications studiously avoid controversial issues.

Freedom of
expression

2
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Opinion cannot be freely expressed in any public forum, nor through public protests or demonstrations. Although private criticism of the government is tolerated and National Assembly members are encouraged to discuss development issues, their freedom of speech is limited. The government has also sought to curtail critical social media discussion. In 2014, it passed a decree to regulate internet communication. Parts of this decree – such as the requirement to protect the LPRP, and the nation's peace, independence, sovereignty, democracy and prosperity – were open to broad interpretation and abuse. In the late 2010s and 2020, the government arrested, tried and imprisoned a growing number of people under this decree and the civil code.

Nevertheless, social media users refused to be cowed. In the aftermath of the Xe Pian-Xe Namnoy hydropower disaster in July 2018, online groups reportedly circulated foreign coverage critical of the government and criticized government relief efforts. Online criticism of the government again circulated in October 2020, when the “if Lao politics was good” hashtag trended after a similar trend in Thailand. With such incidents refusing to go away, the LPRP foreshadowed tighter management of social media at its congress in January 2021. For now, however, the government has not totally suppressed freedom of expression online.

While some observers suspected that the government had underreported positive cases, the government appeared to operate in a fairly open manner with respect to

COVID-19, conducting daily briefings, and collating key data and information on a dedicated government website and smartphone app. It was certainly aided in this endeavor by the low rate of infection in Laos. Nevertheless, foreign media reported arrests of social media users who spread “fake news” concerning infections in Laos and, in another case, streamed video of a gathering that breached social distancing regulations.

3 | Rule of Law

The Lao constitution outlines a formal separation of powers, but de facto all state organs remain subject to the ruling LPRP, rendering de jure provisions of checks and balance subordinate to the party. Checks and balances do not therefore apply between the three branches of government, despite the passage of dozens of laws in recent years. Nor is there a constitutional court to judge the validity of legislation.

During the review period, the LPRP recommitted to its rule-of-law framework, initiated in the government’s Legal Sector Master Plan of 2009. This program emphasizes the need to codify governance in laws and other legislation, as well as the need for checks and balances. Concrete changes include the Law on Making Legislation (2012) and enhanced independence of the judiciary in the 2015 constitutional revision. However, implementation remains a challenge, principally because the party will not submit itself to the law.

The government’s lockdown in response to the COVID-19 pandemic was imposed through the prime ministerial Order No. 06/PM, issued on March 29, 2020. Initially applying to the period March 30 – April 19, the lockdown was extended until May 3. Most other restrictions, including on domestic travel, were eased in July. Approval was still required for international travel, however, and this restriction was still in place in January 2021 after being extended several more times. The legal mechanisms for regulating movement and assembly during the pandemic were reasonable, proportionate and time limited.

The judiciary is institutionally differentiated according to the constitution but, in practice, is not independent of the ruling party. Most judges and senior officials from the ministry of justice are party members. Bribery is widespread, especially in civil and commercial cases, and political connections often prove decisive. According to the objectives of the UNDP-supported legal sector master plan, the government frequently reiterated its commitment to making Laos a “rule-of-law state” by 2020. The National Assembly has passed a growing body of laws, and there is ample evidence to suggest the party wishes to institutionalize state rule through laws and other legislation. However, new laws are not widely known or applied, and other areas related to the plan, such as the implementation of human rights protection, are not priorities for the government. The United States, European Union and United Nations extended support for programs aiming at building legal capacity during the

Separation of powers

2

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Independent judiciary

2

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review period. A body of professional lawyers, who may represent clients in court, continues to grow. The Lao bar association serves as a regulatory body and provides legal education, training and advice through its legal aid program. The association is not an independent body, however, as it continues to work closely with the Ministry of Justice.

Abuse of office is widespread. Accurate estimates are not possible, but it is safe to assume that a large proportion of people holding an official position, whether in the civil service or local administration, use it for personal gain. However, it would be misleading to suggest that corruption is so widespread as to be socially sanctioned: to the contrary, there is a widespread, everyday discourse of discontent about corruption. Many people who hold official positions, both at the local and the central level, are anxious that their actions be interpreted as service (even sacrifice) and not corruption.

Recognizing the need to address endemic abuse of office, the government established the State Inspection and Anticorruption Authority in 2001, and passed an anti-corruption law in 2005 (revised in 2012). Parallel to these measures, the LPRP central committee adopted resolutions dealing with official corruption and abuse of office. For several years, little seemed to change. While low ranking officials were sometimes charged, no senior officials were targeted publicly. Complaints to the police (where the police are not at fault) or to the Office of the Public Prosecutor typically went nowhere. Laos has no ombudsman.

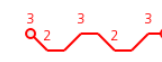
There was a pronounced change in tone after the government of Thongloun Sisoulith took office in 2016. Press reports highlighting the activities of the party inspection commission and state inspection authority in disciplining officials became a staple of the state-run press. While most offenders remained unnamed, newspapers published detailed statistics on the number of investigations, prosecutions and the costs of corruption to the government's finances. Multiple provincial governors were removed from office for alleged corruption (although it was not reported whether they had been charged or prosecuted). Although some observers criticized the government for relaxing its stance, a number of central committee members failed to gain re-election in the 2021 LPRP congress after being dismissed from government positions due to allegations of corruption. This suggests that, behind the scenes, anti-corruption activity is continuing.

Such developments suggest the party leadership recognizes the threat corruption poses to its legitimacy. Nevertheless, its efforts in this domain continue to be limited by its entrenched and endemic nature, especially – it is believed – at high levels of the LPRP apparatus. Conflicts of interest remain rife, the press plays no role in investigating cases of corruption and, because anonymity generally remains the norm, punishments of high-level perpetrators still tend to go unreported.

Prosecution of
office abuse

3

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Civil rights are provided by the constitution but these are not observed in practice. Rights of assembly and expression are not upheld where these oppose the government, and religious freedom is limited in practice where authorities believe religious differences may exacerbate ethnic divisions. For example, intermittent reports allege clampdowns on proselytizers of Christianity among ethnic minorities. Furthermore, abuses are known to occur at the hands of the security forces and in the prison system.

Since there is no likelihood that an appeal against a violation of civil rights will produce a result, few formal complaints are made. Violations of civil rights disproportionately affect the poor and powerless in rural areas, where foreign investors (particularly from China and Vietnam) have obtained substantial land concessions from central and provincial governments. In an increasing number of documented cases, both ethnic Lao and minority groups have been left with little choice but to make way for plantation forestry, agricultural and hydropower projects. Concerns over land-use policies and inadequate compensation have been voiced in local protests, international meetings and even by the National Assembly, but authorities typically take harsh actions against dissenters. The effect of the enforced disappearance of prominent development leader Sombath Somphone in late 2012 continues to be felt in the self-regulation of civil society organizations.

Although civil rights were of course curtailed during the lockdown imposed to reduce the spread of COVID-19, it was time limited, proportional and lifted incrementally when it became clear that the pandemic had been contained in Laos. Nevertheless, there were isolated abuses of the measures, such as a person's arrest for posting footage of a gathering that breached regulations.

4 | Stability of Democratic Institutions

As a single-party Marxist-Leninist state, political power in Laos is monopolized by the LPRP. Although the National Assembly has become more outspoken in recent years, only party members and a few party-approved independents are permitted to run for election. The same appears to be true of the Provincial People's Councils, first elected in 2016. The LPRP also pervades the executive, with ministers typically leading their ministry's party committee and the administration. In practice, the judiciary is also a party instrument.

According to the official LPRP creed of democratic centralism, party committees are elected by party members or delegates at every level – from district to province/ministry and the central committee – so that the views of grassroots party members are channeled up the party hierarchy to consider during policy formulation. The reality is more complicated. While district, provincial and ministerial party committees have some autonomy to elect party secretaries, the formulation of the central committee is managed internally (though it may take voting into account).

Civil rights

3

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1

Performance of democratic institutions

1

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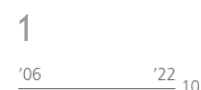


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Moreover, although feedback and ideas may pass up the hierarchy, policy formulation occurs from the top down and decisions by the party leadership must be accepted. While the 11th national congress of the LPRP in January 2021 hinted at policy changes, the political system is based on party leadership of government and society, and liberalization is not foreseeable.

As all political and state institutions are part of the LPRP-dominated party-state, so there are no (multiparty) democratic institutions in Laos. That said, (a socialist conception of) democracy is an important concept in the LPRP-dominated party-state and often mentioned in official documents. Any attempts by Western governments to urge reforms that would lead to multiparty democracy are vigorously resisted, for they are interpreted as creating conditions for regime change. In adopting this position, the LPRP has powerful support from the communist parties of both Vietnam and China, both of which enjoy close relations with the Lao regime.

Commitment to democratic institutions



5 | Political and Social Integration

There is no party system in Laos. The LPRP, defined by the constitution as the “leading nucleus” of the political system, is the only legal party. It is stable, well institutionalized and deeply rooted in Lao society. Nothing that has happened during the review period has threatened its stability or its hold on power. In January 2021, when the Tenth Party Congress was held, party membership was officially reported to be 348,686, an increase of 80,000 over the previous five years, representing almost 5% 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, the bureaucracy and, more recently, business circles.

Party system



The largest and most prominent associations representing social interests are the LPRP’s mass organizations, including the Lao federation of trade unions, Lao women’s union, Lao people’s revolutionary youth union and Lao front for national development (LFND). The LFND includes representatives of ethnic minorities, religious organizations and professional associations such as the Lao bar association and the Lao chamber of commerce. Social and economic interest groups (teachers, health workers, businesspeople) are represented at party forums by virtue of party membership, not as interest groups per se.

Interest groups



The formation of social organizations – known in English as civil society organizations (CSOs), and include non-profit associations, foundations and social enterprises – has been permitted since the adoption of the relevant decrees in 2009 and 2011. These decrees formalize and regulate the activities of the growing civil society sector in line with party-state policies. This requirement was strengthened in the revised decree on associations (2017), which required Lao social organizations to



obtain government approval of foreign funding. The most recent directory of CSOs (2019) lists only 72 organizations, although this is an increase from 63 in 2017 and more than this probably function in practice. Despite the regulation of foreign funding, a high degree of networking and cooperation exists between local CSOs and their international counterparts, which due to the lack of domestic alternatives have historically played an important role in nurturing civil society activity. However, this mutual assistance exists within a restrictive climate.

Laos is among a handful of East and Southeast Asian countries for which survey projects such as Asia Barometer Survey do not provide data. Similarly, Laos is not included in the World Value surveys. Therefore, how strong the approval of democratic performance and institutions in Laos cannot be assessed.

Approval of democracy

n/a

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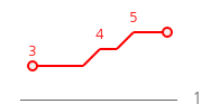
Although survey data on social capital does not exist, a relatively high level of trust is evident in various parts of Lao society. Families (related both through blood and adoption) provide strong structures in many people's lives. These can be strong both within and beyond the village. Trust may also extend to patronage networks, members of the same ethnic group (among ethnic minorities), and people from the same region (among the lowland Lao). Buddhist temples rely on lay committees to organize temple upkeep, festivals and donations. In recent years, charity and donations for those less fortunate have been a popular use of time and resources, and donations are often given not by individuals but by organized groups (e.g., a soccer team, a group who work in the same office, those who donate to the same temple).

n/a

Social capital

5

'06 '22 10



After the 1975 revolution, non-state social organizations were not permitted, except in cases of spontaneous village cooperation, and formal activities were channeled through the ruling party's mass organizations and state bodies. While social relations have improved markedly since the days when state regulation and surveillance eroded trust and cooperation, conditions for autonomous organization have remained restrictive. Constraints on civil society activities have also contributed to fear and distrust. Outside of the political sphere, a number of social and cultural groups exist, especially in Vientiane, and interest in such communal activities has grown with increased prosperity.

II. Economic Transformation

6 | Level of Socioeconomic Development

The COVID-19 recession has worsened existing structural exclusion and inequality among some vulnerable groups, especially low-income workers and those dependent on the informal economy. Overall, the poverty rate (measured as \$3.30 a day, 2011 PPP) was expected to increase by 1.7% compared to a non-COVID-19 scenario, while unemployment rose from 16% in 2018 to 25% in July 2020. More pertinently, whereas 11% of workers from the top 60% of households had lost their jobs by July 2020, the figure was 16% for the poorest 40% of households. The economic impact of the pandemic was also felt disproportionately by workers in the informal sector – who often lack social insurance – especially the construction, hospitality, manufacturing and transportation industries. As well as employing some of the highest proportions of informal workers, these sectors were among the most affected by the pandemic’s deep impact on tourism and supply chains. Although farmers were more insulated from the effects of the shutdown, rising food prices were felt across the country. While the urban poor were the most exposed to rising prices, existing food insecurity is highest among minority ethnic groups, exacerbating these inequalities.

In a longer-term view, however, worsening social exclusion caused by the pandemic must also be weighed against the Lao government’s sustained reduction of economic barriers over the past three decades. This progress continued in the first half of the review period, despite lower GDP growth. Laos’ human development index (HDI) score stood at 0.613 (with Laos ranked 137 out of 189 countries) in 2019, a slight gain since 2018 (0.609) and a 51.4% improvement since 1990. Life expectancy since 1990 has improved from 53.4 to 67.9 years, mean years of schooling from 3.1 to 5.3 years and GNI per capita (2017 purchasing power parity) from \$1,944 to \$7,413 (a 281% increase). The pandemic will undo some of these gains but not all of them. Economic gains have seen poverty headcount levels fall considerably, though structural barriers remain. In 2020, the Sixth Lao Expenditure and Consumption Survey (LECS 6), found that poverty fell from 24.6% in 2013 (and 46% in 1992) to 18.3% in 2019. Rural poverty fell most dramatically, from 31.4% in 2013 to 23.8% in 2019. Nevertheless, while the disparity between rural and urban areas has fallen by almost a third (from 23.5% in 2013 to 16.8% in 2019), inequality continued to grow due to widening consumption gaps within all regions. LECS 6 calculated the Gini index to be 38.8, up from 36.0 in 2013, an increase that was similar in both rural and urban areas. Inequality thus remained significant and structurally ingrained, even before COVID-19 hit the country. This is due partly to the disproportionate dependence of economic growth on the capital-intensive natural resources sector, which does not translate into employment and household consumption.

Question
Score

Socioeconomic
barriers

4

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The Lao government proclaims its support for both ethnic and gender equality but, in both cases, continued inequality reflects structural characteristics. Poverty rates continued to be considerably higher among ethnic minorities (18–38%) than Lao-Tai groups (10.6%). However, this general trend obscures more specific divergences. While the poverty rate of Mon-Khmer and Sino-Tibetan ethnic groups fell by almost a third between 2013 and 2019 – similar to that of the majority Lao-Tai – poverty among Hmong-Mien ethnic groups fell by just 15%. Significantly, the Hmong-Mien was also the only ethnolinguistic family to increase as a share of the national population. The picture is more encouraging in the case of gender exclusion, though socioeconomic and political inequalities that benefit men continue (see “Equal opportunity”).

Economic indicators		2017	2018	2019	2020
GDP	\$ M	16853.1	17953.8	18245.9	19136.2
GDP growth	%	6.9	6.2	5.5	0.4
Inflation (CPI)	%	0.8	2.0	3.3	5.1
Unemployment	%	0.7	0.6	0.6	1.0
Foreign direct investment	% of GDP	10.0	7.6	4.1	-
Export growth	%	-	-	-	-
Import growth	%	-	-	-	-
Current account balance	\$ M	-1259.8	-1648.9	-947.3	-
Public debt	% of GDP	57.2	59.7	61.1	68.2
External debt	\$ M	14696.3	15377.4	16701.1	17164.1
Total debt service	\$ M	734.4	868.6	512.0	1033.7
Net lending/borrowing	% of GDP	-	-	-	-
Tax revenue	% of GDP	-	-	-	-
Government consumption	% of GDP	-	-	-	-
Public education spending	% of GDP	-	-	-	-
Public health spending	% of GDP	0.9	0.9	-	-
R&D expenditure	% of GDP	-	-	-	-
Military expenditure	% of GDP	-	-	-	-

Sources (as of December 2021): The World Bank, World Development Indicators | International Monetary Fund (IMF), World Economic Outlook | Stockholm International Peace Research Institute (SIPRI), Military Expenditure Database.

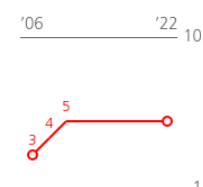
7 | Organization of the Market and Competition

Since the 1980s, Laos has made considerable progress in moving from a command economy to a mixed economy with market features. Prices are set by the market, the Lao kip is convertible and profits from foreign investments can be transferred abroad. However, competition operates within a weak institutional and regulatory framework. This encourages a “deals-based” business culture, reducing predictability and transparency. When disputes arise, the legal system fails to provide businesses with protection against those with powerful political connections. Likewise, while efforts have been made to provide foreign businesses with certainty, they remain vulnerable to arbitrary decision-making and collusion between local business and political interests. The government also retains ownership of what it considers strategic state enterprises, which are concentrated in the transportation, telecommunications, electricity, insurance and banking sectors. It is an active player in the large and growing hydropower industry, which has attracted criticism for financial reasons over the review period.

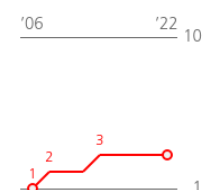
In 2018, the World Bank cautioned that the business environment in Laos was no longer improving and might in fact be deteriorating. In its Doing Business 2020 report, Laos ranked 181 out of 190 countries in the category of “starting a business” – which took 173 days, nine procedures and 4.6 payments on average – though it was higher (154) in the overall “doing business” ranking. Though its size as a proportion of GDP is uncertain, up to 80% of the non-agricultural workforce works in the large informal sector of the economy. According to the earlier 2016 World Bank Enterprise Survey, in which 77% of the surveyed firms claimed to compete against unregistered or informal firms, the activities of the informal sector represents the main constraint on business activity. The high level of informal activity by formal firms also represents a major impediment to business. Other constraints identified included high taxes, transportation, electricity and inadequately educated workers. Such appraisals gave the government impetus to introduce a streamlined enterprise registration process in 2019, though its implementation will depend on wider efforts to improve public administration.

The government has introduced legislative measures to enhance competition and protect consumers, but enforcement continues to present challenges. The 2014 Law on Business Competition substantially expanded the regulatory framework created under the rudimentary decree on trade competition (2004). In addition to being a requirement of the ASEAN economic community blueprint, the new law can be seen as a component of the government’s ongoing effort to establish Laos as a “rule-of-law state.” The competition law addresses four substantive areas: uncompetitive trading practices; anti-competitive agreements; abuse of market power and monopolization; and anti-competitive mergers. In 2018, according to the new law, the government created the Lao Competition Commission, and secretariat to investigate and enforce competition violations.

Market
organization
5



Competition policy
3



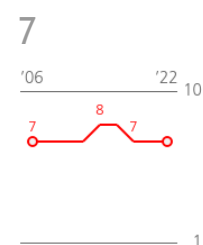
In addition, the Ministry of Industry and Commerce introduced a framework for the creation of consumer protection associations in 2020. Still in their nascent stages, these agencies face the imposing challenge of having to implement and enforce the principles of competition law. While most state-owned enterprises (SOEs) have been sold off or otherwise privatized, the government retains control of 160 to 200 SOEs that it considers strategic or essential for national development. These tend to be monopolistic, though this is changing in some sectors including telecommunications and aviation. The competition law adopts a broad approach to the type of entity covered, potentially including SOEs, but it also seeks to protect the rights and interests of the state (along with businesses and consumers).

Laos has become broadly integrated into regional and world markets. Trade liberalization has been guided by membership of ASEAN. After first reducing tariffs to join the ASEAN Free Trade Area (AFTA). Laos signed up to the ASEAN trade in goods agreement in 2010 and the ASEAN economic community in 2015. After a long application process, Laos also joined the WTO in 2013 and in 2020 became an inaugural member of the regional comprehensive economic partnership (RCEP). Membership of these frameworks has required deep and ongoing reforms in a wide range of areas such as tariffs, non-tariff measures, customs reforms, trade facilitation, taxation, foreign exchange, investment, and import and export procedures. Laos's average applied Most Favored Nation tariff rate was 8.6% in 2019, down from 10.7% in 2014. However, the applied MFN rate exceeded the bound tariff rate for 26 lines (2018).

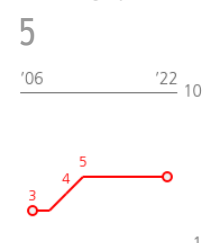
As in other countries, reforming non-tariff barriers is considered more difficult and remains a work in progress. As it seeks to control national development, the Lao government retains a high degree of formal and informal influence over large and medium-sized enterprises, which diminishes trade competition. Laos has, nevertheless, signed up to a streamlining of non-tariff barriers in line with its ASEAN commitments. In 2019, for example, the National Assembly passed the Law on Anti-dumping and Countervailing Measures.

Legislation governing the Lao banking system is oriented toward international standards. In 2016, the government strengthened key regulations covering the forfeiture of assets, border declaration and penalties for non-compliant entities. It is also planning to launch a national risk assessment, as recommended by the financial action task force (FATF). These reforms helped remove Laos from the FATF's list of "jurisdictions not making sufficient progress." In addition, the Bank of the Lao PDR removed the minimum loan size limit to be recorded in its credit registry and expanded coverage of borrowers. More recently, in August 2018, the government revised the Bank of the Lao PDR Law, permitting it to move toward risk-based supervision and additional reforms in line with international standards. Implementation is an ongoing challenge.

Liberalization of foreign trade



Banking system



A considerable degree of political interference continues to be exerted over the sector, for instance, through the financing of state-owned enterprises by state-owned commercial banks (SOCBs). Although the share of SOCB assets has fallen with the expansion of the foreign and domestic private banking sector, the state-owned sector continues to be dominant, accounting for almost half of total bank lending. Having twice been restructured and refinanced because of non-performing loans, the SOCBs have demonstrated improved performance over the past decade. However, some SOCBs (along with some private banks) maintain capital to asset ratios lower than the minimum regulatory level of 8%.

In addition, there has been a pronounced expansion in foreign banks over the past two decades, with new branches of Chinese, Taiwanese, Malaysian and Thai banks, among others, entering the market. With parallel growth in domestic and joint-venture banks, the total number of private banks has increased to more than 40. Although these banks vary in size and profitability, the aggregate capital to asset ratio is above the minimum regulatory level of 8%. Nevertheless, the revision of the Bank of the Lao PDR law was undertaken in part to address growing concerns over bank supervision, given the speed and scale of this expansion in relation to Laos' small economy. Laos has also developed a modest capital market. In January 2011, the Lao Securities Exchange (LSX) opened for business in Vientiane with two listed companies. As of 2020, only nine companies (all majority-state owned) were listed on the LSX, with capitalization remaining small by regional standards. Since May 2013, Laos has issued a number of bonds through Thai and domestic bond markets to finance the general public investment program and support the budget. The most recent offerings in 2019–20 remained undersubscribed, however, especially after international ratings agencies downgraded Laos' sovereign credit rating and indicated a negative outlook.

In response to the COVID-19 pandemic, the Bank of the Lao PDR followed other regional countries in easing reserve requirements, reducing interest rates and boosting money supply, which helped banks weather the downturn. Due in part to the foreign and public debt crises that were exacerbated by the pandemic, banking sector fundamentals remain mixed. Public sector credit soared, overtaking private sector credit in January 2020 and averaging 21.5% over the first nine months of the year, while private sector capital flatlined at just under 8%. Overall, the capital to assets ratio fell from 18.3% in Q4 2018 to 13.9% in Q2 2020 but remained well above the prudent level of 8%. However, the capital to asset ratio of BCEL, the largest SOCB, decreased from 10.5% in December 2019 to 8.9% in September 2020, posing a significant risk to the sector. In January 2021, the ratio of non-performing loans (NPL) remained stable at 3.2% of total loans, but again this figure obscures the much higher NPL ratios of certain banks, especially SOCBs.

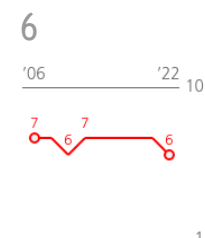
8 | Monetary and fiscal stability

Lao monetary policy in recent decades indicates that the government is aware of the importance of keeping inflation under control. The government embarked upon a macroeconomic stabilization program after the Asian Financial Crisis, when annual inflation reached 110%, and has since maintained an effective monetary policy with inflation remaining under 10% since 2005. Nevertheless, after falling to 1.3–2.3% between 2015 and 2018, headline inflation surged to 6.9% in January 2020, mostly due to food price rises and the depreciation of the kip. With the onset of the COVID-19 crisis, it again peaked at 6% in July. Although headline inflation had decreased to 2.8% by November 2020, it averaged 5.3% in the first 11 months of 2020.

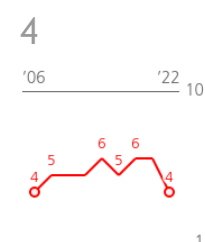
The central bank, the Bank of the Lao PDR, is controlled by the state. The bank oversees a managed floating exchange rate, aimed at maintaining nominal exchange rate stability against the U.S. dollar. The official exchange rate typically tracks the free market rate. However, pressure on the kip, which had already been rising in recent years, intensified with the COVID-19 pandemic. In November 2020, it had depreciated 4.7% year-on-year against the U.S. dollar, though the pressure was greater on the parallel market. In July 2020, the gap between the official rate and the rate offered by exchange bureaus reached 9.7%, prompting the government to strengthen controls on the parallel market. By December, the gap had fallen slightly to 9.1%, though this was still much higher than the 2% recorded in 2018.

Lao authorities are aware of the need for macroeconomic stability but have struggled to restrain budgetary spending due to the government's development strategy of promoting high-cost infrastructure projects, especially in the hydropower sector. While this situation had already reached serious levels in 2019, it worsened considerably with the onset of the COVID-19 economic recession, leaving Laos on the brink of a potential sovereign debt default – though debt restructuring with China seemed a more likely outcome. The COVID-19 economic contraction depressed revenue collection by around a quarter, with the domestic revenue-to-GDP ratio expected to fall from 13.5% in 2019 to 10.2% in 2020. As such, the World Bank expected the fiscal deficit to rise from 5.1% of GDP in 2019 to at least 7.6% in 2020, and possibly higher. To be clear, the COVID-19 pandemic worsened an already troubling predicament. In 2019, before the economic crunch, Lao spent 27.9% of its budget on servicing debt, according to the IMF. With revenue falling further in 2020, debt repayments were expected to average 55% of the budget in 2020–23. The fiscal squeeze limited the Lao government's capacity to fund countercyclical spending to alleviate the impact of the COVID-19 recession. In the short term, the shortfall was funded through foreign borrowing, an increase in direct credit to the government from the Bank of the Lao PDR and borrowing from domestic and foreign commercial banks (located in Lao PDR).

Monetary stability



Fiscal stability



Fiscal deterioration diminished Laos's already troubling debt profile. Public debt was estimated to increase from 59% of GDP in 2019 to 69% of GDP in 2020, with projections for 2022 varying between 77% and 87% of GDP. A large portion of public and publicly guaranteed debt is held by the national electricity utility company, Electricité du Laos (EdL), which has borrowed heavily (often on non-concessional terms) to invest in the country's hydropower development strategy. With rising debt levels and a declining share of concessional borrowing, Laos faced debt-service payments of \$1.2 billion in 2020, with similar amounts due between 2021 and 2025. In August and September, respectively, Moody's and Fitch downgraded Laos's credit rating to their lowest levels before debt default (Caa2 and CCC). Acknowledging the debt burden, the government blamed large loans in the hydropower sector, investment in unproductive projects, overspending on non-productive assets, and excessive borrowing to fund interest payments and the deficit. In response, it announced plans to cut spending and non-essential projects, as well as measures such as converting debt to capital (i.e., debt-for-equity swaps) and selling shares in state enterprises. In the most controversial response, EdL entered into a joint venture with a Chinese SOE, China Southern Grid, to form EdL-Transmission to develop the national transmission network. Reports suggested the Chinese partner held 90% of the joint venture, though other details such as the purchase price or a possible debt-for-equity swap were not made public. Observers criticized the government for potentially ceding control over a strategic asset, but such deals – and a debt restructuring plan with China, by far Laos's greatest creditor – may be necessary to avoid a debt default, particularly as Laos chose not to participate in the World Bank's DSSI.

Given the sharp decline in tourism, flyover fees, remittances and higher debt-service obligations, the current account deficit was also expected to rise from 8% in 2018 to 11.3% in 2020. Nevertheless, the trade deficit more than halved from \$955 million in Q1–Q3 2019 to \$438 million in Q1–Q3 2020 as imports fell faster than exports. In the longer term, the RCEP is expected to benefit Lao exporters. Nevertheless, Laos's foreign exchange reserves fell sharply from \$1.067 billion in 2019 to just \$864 million in June 2020, and were expected to fall further to the equivalent of just 0.5–0.8 months of imports. In the event, reserves actually increased to \$1.352 billion in September after the People's Bank of China (PBOC) extended a CNY 6 billion (\$900 million) swap line to the Bank of the Lao PDR (with a maturity of three years), apparently for specific purposes such as buying imports from China. However, World Bank accounting rules do not permit earmarked funds to be counted as foreign reserves; nor, more importantly, can they be used for debt-service payments. This would leave the real foreign reserves at less than \$500 million, less than half 2019 levels, which the World Bank had already described as “critically low.”

9 | Private Property

The Lao constitution formally provides property rights, and charges the state with upholding rights to use, transfer and inherit land, and other natural resources – designated as the “national heritage” – “in accordance with the law.” This vague formulation is clarified in the revised Land Law (2019), which states more pointedly that land is under the ownership of the national community, with the state – as the community’s representative – managing it in a centralized and uniform manner. This formulation gives the state considerable powers to seize land and determine compensation, particularly over customary and communal lands. In urban areas, a land-titling program was initiated in the 1990s with World Bank support, though the expansion of the program to rural areas has been slow. False and disputed claims can in theory be resolved in a court of arbitration but are often settled through informal payments to relevant officials. According to the World Bank, property registration processes are (at an average of 28 days) considerably faster than the average in East Asia and the Pacific (62 days).

In rural areas, families possess user rights to agricultural land, which (if the land is deemed to have been “improved”) are transferable, taxable and heritable. Communities may also exercise traditional rights to non-agricultural land, including ethnic minorities who practice shifting cultivation, such land is often deemed to be “unimproved.” On this basis, authorities often disregard traditional rights or pay insufficient compensation to those who have lost access to or ownership over land classed as “unimproved.” This problem was worsened by the increase in foreign demand for agricultural concessions after the previous land law was passed in 2003 and the turning land into capital (TLIC) strategy was adopted in 2006. Despite various moratoria on new concessions, rural land issues remain one of the principal areas of social injustice in Laos today. While local resistance has occurred and the matter has been raised in the National Assembly, rural populations possess few avenues for redress. Against this trend, land management was one area of popular concern the Thongloun Sisoulith government has sought to address. In August 2017, the LPRP central committee issued a resolution acknowledging the TLIC’s shortcomings, including the lack of a comprehensive legal framework and the potential for this to undermine public order. The revised Land Law of 2019 aimed to improve governance and transparency in this area. While it is too early to say if these measures will be effective, they demonstrate a recognition of the problems associated with the previous law.

Property rights

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Domestic and foreign-owned private companies are permitted to operate and are in theory protected by the enterprise law (amended 2013). In practice, however, state interference and favoritism often prevail over market principles. Most state-owned enterprises have been privatized, but those the government considers to be of strategic importance remain in state hands, including electricity and water. The government, operating through holdings companies and Electricité du Laos, is also the key local player in the rapidly expanding hydropower industry. Private enterprise has enhanced competition in sectors such as telecommunications and aviation.

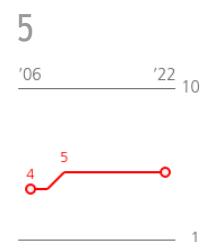
Nevertheless, the state or state leaders often retain a substantial degree of informal control over enterprises that are formally privatized. Government contracts are awarded to private companies that have relationships with high-ranking party members. In other words, there remain close links between private economy and the party, even where the two are ostensibly separate. Commercial projects sometimes have difficulty getting off the ground without political support, and foreign companies sometimes pay substantial sums for such patronage. Improving the ease of doing business has been a focus for the government for several years, but the country slipped 13 places in the World Bank's most recent Doing Business rankings, from 141st in 2018 to 154th in 2019 and 2020.

10 | Welfare Regime

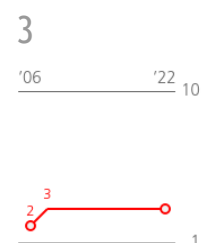
Laos adopted an improved social security law in 2013, which merged the existing state social security and private sector systems, and created the National Social Security Fund (NSSF). Funded through employee, employer and government contributions, the scheme covers state and private sector employees, and is voluntary for the self-employed. It provides benefits for old age, disability and survivors; sickness and maternity; work injury; and unemployment. However, coverage remains minimal due to uneven levels of registration and the large informal sector. The government has acknowledged these shortcomings. During the review period, in September 2020, it released the National Social Protection Strategy (NSPS) for 2020 to 2030, developed in conjunction with U.N. agencies and other development partners. The NSPS has impressive ambitions to provide universal access to health insurance, social security and social welfare by 2030. It also recognizes the need to increase coverage of workers in the informal sector. But with just 4.3% of non-government workers covered by social insurance in 2020, the government is working from an extremely low base.

These limits were badly exposed by the COVID-19 pandemic. In response to the pandemic, the government exempted employees earning less than LAK 5 million (\$540) from paying income tax for three months, and paid unemployment benefits to those who had lost their jobs and were members of their employer's social insurance scheme. But with such low levels of social insurance coverage, the special assistance had been taken up by only 12,000 people or 0.37% of all workers by the end of 2020 – just 3.1% of the 12.8% of workers thought to have lost their job up to July.

Private enterprise



Social safety nets



More generally, health care spending remains extremely low (0.9% of the GDP in 2017, unchanged from 2014). Life expectancy at birth is improving gradually, with the figure rising from 62.3 in 2004 to 67.6 in 2018. The government has introduced measures to alleviate poverty in mountainous parts of the country, including a resettlement program that is also driven by the political and security concerns of the regime. However, resettlement, especially when forced by concessionary development projects, also has a negative impact on livelihoods. In the countryside more generally, only the small-scale networks of kinship, villages, ethnicity and patronage provide any effective social safety net.

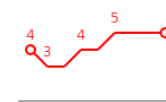
The LPRP promotes a strong rhetoric of equality of opportunity, particularly on the grounds of gender and ethnicity, but results remain less impressive. Laos's Gender Inequality Index improved slightly from 0.461 in 2017 to 0.459 in 2019 (with Laos ranked 113 out of 162 countries), a considerable improvement from 0.534 in 2013. In addition, Laos's Gender Development Index (2019) is 0.927, equating to "medium equality" between men and women. Nevertheless, one area of persistent gender disadvantage is education. Despite steady improvements, 35.1% of females have at least some experience of secondary school as opposed to 46.2% of males. The female adult literacy rate also remains significantly lower than the male rate (79.4% compared with 90% in 2015). On the other hand, women comprise almost half the labor force, with a participation rate of 76.9% compared to 79.7% for men. Women also won 27.5% of the seats in the National Assembly in the 2016 elections, a relatively high proportion for the region. Finally, while only one woman was elevated to the LPRP politburo between 1955 and 2016, the 2021 congress added one more woman to the politburo and two women to the influential party secretariat, meaning that four of the top 18 central committee positions are now held by women.

Ethnic minority populations have poorer access to education than the ethnic Lao-Tai majority, a problem that is multiplied for girls from ethnic minorities. While the party and the army both target ethnic minorities for recruitment, the prevailing political culture puts ethnic minorities at a disadvantage. 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, often through payment of a cash "deposit." Those without such connections or financial support to draw on are at a disadvantage.

Equal opportunity

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11 | Economic Performance

The COVID-19 pandemic exposed and dramatically exacerbated existing vulnerabilities in the Lao economy. After strong and stable economic growth averaging 7.5% per annum over the past decade, real GDP growth slipped from 7% in 2016 to 4.7% in 2019, before plunging to -0.6% (projected) in 2020.

As a result of the lockdown, the service sector was the most severely hit (-4.5% in 2020). According to the World Bank's Lao PDR Economic Monitor (January 2021), the COVID-19 crisis has also contributed to a "rising public external debt burden" and declining foreign currency reserves, which "limit the government's capacity to adopt a robust fiscal stimulus."

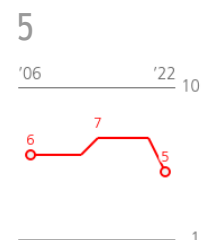
In addition, industry and specifically manufacturing were impacted by supply chain disruptions, though robust growth in electricity production and continued work on the Laos-China railway, Vientiane-Vang Vieng Expressway and hydropower projects ensured industrial growth remained positive (2.9% in 2020, down from 4.7% in 2019). The less exposed agricultural sector was expected to grow by 2% in 2020, after contracting slightly in 2019 (-0.9%). As in other (southeast) Asian countries, the negative economic impact of the crisis has disproportionately affected informal, micro, and small and medium-sized enterprises, which are the backbone of the economy and account for more than 80% of the employment in Laos.

After an uptick in late 2019, inflation spiked in January 2020 (6.9%) and again in July (6%) due to food price rises. It eased during the second half of 2020 but averaged 5.6% for the year to November (up from 3% for the same period in 2019). Estimating unemployment in Laos is difficult. The World Bank figure of 0.6% for 2019 is not credible; more realistic is the World Bank's estimate that, at the peak of the COVID-19 economic crisis in July 2020, 12.8% of the existing workforce had lost their jobs, though this was a temporary impact.

A major driver of GDP growth has been foreign direct investment (FDI), particularly from Vietnam, Thailand and China. China has consolidated its place as the leading source of FDI due to the high import content of infrastructure, including projects such as the Laos-China railway, the Vientiane-Vang Vieng Expressway and investments in hydropower. Annual FDI fluctuates as a proportion of GDP with the project cycle and in 2019 it declined to 3.1% from 7.4% in 2018. Nevertheless, FDI flows grew by almost 25% in the first three quarters of 2020 (year-on-year) to approximately \$800 million.

Despite an improved trade balance, the current account deficit was expected to widen from 8% in 2019 to 11.3% in 2020 as the COVID-19 pandemic led to a sharp downturn in tourism, overflight fees, remittances from Lao migrant workers abroad and increased debt-service payments. Of greater concern, the fiscal deficit

Output strength



deteriorated dramatically from already worrying levels in 2018 and 2019 (4.7% and 5.1% of GDP, respectively) to 7.6% in 2020, due to a steep decline in revenue (10.2% of GDP in 2020 compared to 13.5% in 2019). Although the government has recognized and addressed this problem over the past decade, the pandemic undid much of that work.

Fiscal strains exacerbated structural vulnerabilities in Laos's debt profile, as public debt increased from 58.8% of GDP in 2019 to an estimated 69.1% in 2020. Although this debt level was not in itself unmanageable, a large and growing proportion comprised non-concessional commercial loans and bonds. China was the largest creditor, accounting for 77% of concessional bilateral loans and 69% of non-concessional bilateral loans. Between 2020 and 2025, the government will face annual debt payments of around \$1.2 billion – at a time when foreign exchange reserves had fallen below the level equivalent to one month's imports. Although the COVID-19 crisis worsened Laos's debt profile considerably, the government conceded that pre-pandemic policies and spending were principally responsible for the debt problems, especially overspending on not-yet-productive hydropower assets. In August and September 2020, Moody's and Fitch both downgraded Laos's sovereign debt rating to their lowest levels above debt default. Late in the year, the government – which had already opted out of the World Bank's DSSI – appeared to have commenced discussions with Chinese creditors to facilitate debt restructuring, a further indication of Laos's increasing economic reliance on its vast northern neighbor.

12 | Sustainability

Despite signing relevant international conventions, the Lao government takes little heed of 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, but its main priority in natural resource management is economic growth.

Typical of the priority placed on growth – and the social and environmental impacts that flow from this – is the country's rapid and radical expansion of hydropower projects for foreign export. Despite the Xe Pian-Xe Namnoy saddle dam collapse of 2018, the government proceeded with large-scale hydropower development during the review period. Besides the Xayaburi and the Don Sahong projects, commissioned in 2019, four more projects on the Mekong mainstream are currently at various stages of planning or construction. Less prominently, the government is also proceeding with close to 50 hydropower projects of varying sizes on the Mekong's tributaries, including cascades of multiple dams on rivers such as the Nam Ou in the country's north. Like previous projects, these come at the risk of highly deleterious impacts on local fisheries, environments and livelihoods.

Environmental
policy

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With respect to mainstream projects, the government's lack of regard for formal consultation processes mandated by the Mekong Agreement (1995) attracted further condemnation from Laos's neighbors and environmental groups. Elsewhere, the government expresses environmental concern over the swidden practices of primarily ethnic minorities and has a policy in place of resettling them in locations where their agricultural practices can be better controlled. However, this effort has served as much as a means to exert state control over minorities as to protect Laos's dwindling forests. More encouragingly, the outgoing government of Thongloun Sisoulith continued to enforce its 2016 moratorium on the export of logs and timber, a policy shift that saw a structural shift in the Lao economy away from timber exports.

Although it has made progress, the Lao government has failed to make education a national priority and the quality of education at all three levels remains low. Overall, Laos's score on the U.N. Education Index fell between 2016 and 2018, before improving slightly to 0.481 in 2019, just above its 2015 level (0.479). In this period, the country slipped behind Cambodia (0.484), while Myanmar (0.464) almost caught up with Laos. According to the World Bank, child and adult illiteracy is a greater problem than previously recognized. An early grade reading assessment in 2015 showed that over 30% of second grade children could not read a single word. In an adult literacy assessment in six locations (including Vietnam and Yunnan Province, China), adults in Laos had the poorest literacy skills among those tested. Most alarmingly, post-secondary graduates in Laos performed almost on-par with primary-educated Vietnamese.

The main problem is government spending. Although the government's Education and Sports Development Plan (2016) aimed to increase education spending to 17% of the budget, expenditure actually fell from 15.8% in 2015/2016 to 13.7% in 2019 and 13.1 % in 2020. Considering the growth of the budget, increases since 2010 (11.9% of expenditure) are not insubstantial. However, much of this growth has taken the form of wage increases for (poorly paid) teachers, meaning that funding for textbooks, equipment and teacher training remains very low. While more recent data is not available, public expenditure on education as a proportion of GDP was just 2.9% in 2014 – around half of that in Vietnam. Although the government funds a number of research institutes that conduct policy-relevant research, it does not as a rule invest in research and development.

Education policy /
R&D

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Governance

I. Level of Difficulty

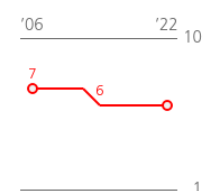
Historically, the greatest structural constraint on effective governance in Laos has been geography. The country is not only landlocked, but also mountainous in the north and east, while waterfalls on the southern frontier make navigation down the Mekong River to Cambodia impossible. Infrastructure has been poorly developed, aggravating communication with all neighboring countries except Thailand, with which Laos shares a long border along the Mekong. In addition, natural disasters including flooding and drought remain regular occurrences, with droughts – exacerbated by Chinese hydropower development on the upper Mekong – affecting mainland southeast Asia in 2019 to 2020.

The Second Indochina War (1955 – 1975) involved an intensive bombardment of Laos by the United States. Much of the bombing targeted key infrastructure such as roads, bridges and settlements. In vast areas, such as the Southeast Highlands, lands were bombed so heavily that the soils became unsuitable for agriculture. Unexploded ordnance remains a significant problem throughout Laos: it is costly to locate and remove, a cost that many in Laos cannot afford. The result is that rural and remote communities live with the threat and consequences of deadly explosions.

The regime's efforts to promote development are also structurally limited by the small and dispersed population, which limits the size of the domestic market, savings and investment. Another significant constraint is the low level of human resource development. Educational levels and literacy rates are well below ASEAN averages. Despite significant reductions over time, poverty rates remain high, especially in rural areas. Although the COVID-19 pandemic did not cause a health crisis in Laos, it resulted in a serious economic downturn, which disproportionately impacted on vulnerable groups, including workers in the informal sector. The fiscal and debt impacts of the economic crisis will be felt for several years to come. HIV/AIDS infection rates, though low by international standards, remain a concern, as do malaria and tuberculosis.

Structural
constraints

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Laos's civil society traditions are very weak, with the regime committed to maintaining the LPRP as the “nucleus” of the political system rather than encouraging autonomous political participation. During the “revolutionary struggle,” solidarity and cooperation – which previously existed mainly at the village level – was strengthened among different groups, but promises made to ethnic groups that supported the revolution were not fulfilled. Civil society organizations that had formed throughout the Royalist period (1946 – 1975) were disbanded. The LPRP regime created mass organizations to mobilize women, young people, workers and other social groups. But while these organizations continue to play an important role in Lao society today, they are organized under the Lao front for national development and cannot be considered independent civil society associations.

The 2009 decree on associations, which permitted the formation of social organizations, appeared to promise a new era of improved cooperation between civil society and government, but these hopes were dashed in 2012 to 2013 by a crackdown, which reinforced the requirement that associations support the government's development policies. Effectively proscribing civil society activity independent of the state, the government issued a revised decree in 2017 strengthening its regulation of the sector through, for example, annual registration renewals and rules on foreign funding. By early 2021, fewer than 90 organizations were registered, though even these are required to work closely with government agencies.

Unity is a strong value in contemporary Lao politics. The LPRP has consistently promoted solidarity among social and ethnic groups. Part of the narrative of the LPRP is how, despite inherited divisions along geographical and ethnic lines, the party was able to guide the population away from traditional “feuding,” and toward unity and peace. Today, there are few ethnic, religious or social conflicts in Laos. The economic disruptions caused by the COVID-19 pandemic have had no particular impact on politics or existing social cleavages.

Small-scale protests (sometimes violent) over resource usage continue to occur, especially concerning compensation for acquired land, but these incidents remain isolated and unorganized. These are met with swift action from both the police and armed forces, with long prison sentences standard for those who violently resist land appropriation.

The longest-running ethnic conflict, a relatively small but persistent Hmong insurgency, collapsed in the 2000s, and several pro-government Hmong hold positions of authority in both the LPRP and the government. The Hmong president of the National Assembly, Pany Yathotou, for instance, is also a senior member of the politburo. Recent incidents of armed violence in Xaysomboun province (near the former Hmong insurgency) appear to be unrelated, instead being aimed at Chinese nationals. This is of some concern given the increasing level of Chinese investment and business activity in many parts of Laos.

Civil society traditions

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Conflict intensity

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The government bans missionary activities by Christian and other religious groups, although it supports Buddhism, which it considers central to Lao cultural identity. The small Christian community is equally divided between Catholics (mostly ethnic Lao) and Evangelical Protestants (ethnic minorities). Both groups maintain a low profile, although the limited social conflicts do exist.

II. Governance Performance

14 | Steering Capability

The government's five-year national socioeconomic development plans (NSEDP) have laid out strategic objectives for the country. These include reducing poverty, lifting the nation above least-developed country (LDC) status by 2020 – a target that has been delayed but is likely to be achieved in 2024 – and the Vision 2030 goal (adopted in 2016) of quadrupling economic output by 2030. Adopted at the 11th Party Congress in January 2020, the most recent ninth NSEDP (2021–25) appears to have marked a slight change in approach. In adopting an annual GDP growth rate target of 4%, down from 7.5% five years earlier, the party has emphasized the need to focus on the quality, stability and sustainability of economic growth, and to improve people's livelihoods. The fiscal and debt challenges exacerbated by the COVID-19 pandemic also appear to have encouraged the leadership to rethink its strategy.

The government genuinely wants to develop the economy and reduce poverty, and, in any case, economic development has generally strengthened the position of the party. While internal politics are not clear, the most influential ministries – defense, public security (interior) and foreign affairs – are also those most likely to prioritize stability over economic progress. The divergent goals of the party manifest themselves in policies such as the pilot 3-Builds (Sam Sang) directive, implemented since 2012. Ostensibly a measure for economic decentralization, this framework in fact works to strengthen central party control.

The lack of representative democracy enables the leadership to pursue development strategies that boost the economy even if they are unpopular. These can and do have disastrous consequences for rural livelihoods, as well as for the debt profile of the nation. Likewise, the lack of checks and balances means that strategic goals are frequently subjugated to rent-seeking and official corruption. Encouragingly, the outgoing government of Thongloun Sisoulith demonstrated greater appetite than its predecessors for addressing corruption, government profligacy and land management issues related to concessionary development. Tackling corruption in a more comprehensive way would require acting against some of the most powerful interests in the party and business sector, the prospects of which continue to appear remote. Nevertheless, as the reduced growth targets in the latest NSEDP suggest, such motives may incrementally lead to more sustainable prioritization.

Question
Score

Prioritization

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There is a large degree of variation in policy implementation. On the one hand, large-scale projects such as hydropower dams and other infrastructure, typically funded with foreign capital, are implemented with the full support of the state, in spite of significant social, environmental, and in some cases economic concerns. As well as hydropower dams, these projects include the construction of the ambitious and expensive Laos-China railway connecting Vientiane to Kunming in southwest China. Part of China's Belt and Road initiative, construction on this project was nearing completion by the end of the review period. On the other hand, reforms such as those aimed at strengthening environmental management or research-based policies are typically only partially implemented. The common phrase is that these are "not yet complete" or "not yet implemented," which also indicates that these are sensitive areas that are not open to free investigation. Likewise, reforms aimed at strengthening the rule of law proceed apace through the passing of laws and other legislation, but these are often not translated directly into practice and few people are aware of their formal rights.

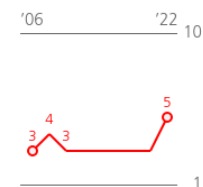
In addition, effective implementation of endorsed policies, such as poverty reduction and improved bureaucratic efficiency, has been impaired by a lack of material and human resources. While the Thongloun government's rhetoric and actions aimed at reducing budgetary waste and corruption represented a welcome shift, more time and political will is required of the new government if the impact of corruption is to be mitigated. Another problem is that powerful provincial governors do not always implement laws and regulations passed by the central government. The 3-Builds directive that has been a priority since 2012 was designed in part to clarify center-province relations, but again the challenges remain significant. In addition to these challenges, the fiscal and debt crises sparked by the COVID-19 pandemic set the government back in its efforts to implement greater budgetary discipline and take control of public indebtedness, with one likely result being greater economic dependence on China, as Laos looks to Chinese support to resolve these issues.

There is a discernible interest in Lao policy circles in "evidence-based policymaking." Policies and the evidence behind them are debated in the Lao National Assembly, and these debates are published online in a regular journal. However, the disconnect between evidence and policymaking remains a recognized problem. Policymakers and researchers alike point to a lack of suitable forums in which policymakers can be informed about latest research findings, a lack of human and material resources to process evidence, and vested interests that may override such efforts.

Despite the increasing responsiveness of some leaders, the LPRP's commitment to maintaining the political status quo remains the single greatest barrier to policy learning. Many decisions are made on the basis of political reasoning, such as the politics of party power and patronage, which is often obscure to external observers. In general, however, the government follows external advice only partially or sporadically, and it is unclear why certain evidence or advice has a strong impact while other recommendations go unheeded.

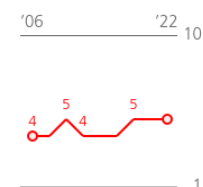
Implementation

5



Policy learning

5



Impetus for economic reform is strongest when supported by the advice and experience of Vietnam and China, whose state-supervised economic model Laos has adopted. In a potentially encouraging sign, the fiscal and debt challenges exposed by the COVID-19 economic crisis appear to have promoted policy learning, as evidenced by the lower growth targets adopted in the ninth NSEDP (2021 – 2025), which enhances the possibility of addressing structural budgetary and development problems. However, more time is required to judge whether policy learning has in fact occurred.

15 | Resource Efficiency

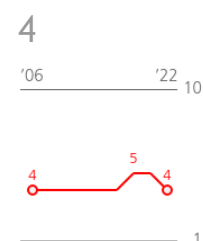
The government does not make full use of the human, financial and organizational resources available to it. Lao political culture revolves around patronage networks: amalgams of families, friends and patron-client networks. Employment is one of the advantages a patron can provide. As a result, recruiting procedures are neither open, transparent nor competitive, to the extent that positions are often reserved through a cash “deposit” scheme and many aspirants work long years as volunteers in the hope of securing a permanent position. In this process, qualified and capable candidates are likely to be overlooked in favor of those better connected or better resourced.

Laos has a slowly increasing pool of foreign educated, technically competent administrative personnel, but they are subject to political imperatives and many remain reluctant to make decisions that might jeopardize their careers.

When decentralization occurred in the past, corruption increased at the provincial level. Centrally appointed civil servants (teachers, health care workers) went unpaid and revenue was not remitted to the central government. Subsequent re-centralization of financial matters (including payments of public servants, taxation and customs) did little to increase revenue and corruption continues to permeate the bureaucracy. These missteps may explain the enhanced central oversight through the 3-Builds directive, a decentralization initiative implemented since 2012, which aims paradoxically to establish clearer control over resource revenues. Despite this program and reams of relevant legislation, making public administration more transparent or effective remains one of the government’s key challenges, at least in the immediate term.

State oversight of the budget was expected to improve with the revision of the state budget law, passed in 2015 and implemented in 2017. The law includes several measures to improve public financial management, and a revised method for budget allocation. These measures, which broadly aim to make the bureaucracy more accountable, represented a substantive response to the blowout in government spending in 2013. Nevertheless, deficits remained high compared to regional and structural peers, even before the COVID-19 pandemic exposed the vulnerabilities associated with high levels of deficit budgeting. As the deficit reached new highs,

Efficient use of assets



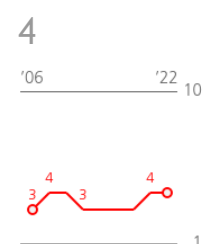
public indebtedness worsened such that without significant debt restructuring – especially with China, Laos’s largest creditor – sovereign default would have been a real possibility. High and increasing debt-service payments prevented significant reallocation of resources for stimulatory purposes and prevented increases to health care and education spending (as a proportion of GDP). On the other hand, the Bank of the Lao PDR increased the money supply and provided direct credit to the government in a manner that was appropriate under the circumstances.

Despite efforts to promote coherent policy through the five-yearly NSEDP process, coherence remains weak due to the challenge of coordinating the political and economic priorities of the government, and the structural conflicts that still exist between ministries and between the central and provincial administrations. The staffing of ministries is highly politicized as ministers often make appointments designed to strengthen their patronage networks and ministries often function as autonomous fields of power to be protected from outside interference, which limits coordination and cooperation. The prioritization of national GDP growth as a proxy for development means efforts to reduce inequality and protect local livelihoods and environments are often subordinated. Policy formulation can also be driven by the urge to take advantage of donor projects. Horizontal coordination is almost nonexistent. Decision-making generally remains centralized and hierarchical and is a prerogative that senior officials guard jealously. Even minor technical matters can get passed up the hierarchy for decisions to be made. The main exceptions to this pattern result from the direct intervention of the central party apparatus, which has the capacity to unify various arms of the government on an ad hoc basis.

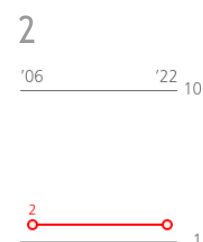
The government has also established interministerial taskforces in response to crises of national significance, though results have been mixed. Whereas the committee charged with responding to the Xe Pian-Xe Namnoy saddle dam collapse in 2018 is still struggling to adequately provide for displaced survivors, the National Taskforce Committee for COVID-19 Prevention and Control, formed on February 3, 2020, to prevent the spread of the virus, effectively propagated public information and mitigated the severity of the pandemic in Laos.

The government generally fails to contain corruption, which continues to be ubiquitous in Laos. The problem is exacerbated by the apparent wealth of senior party leaders, despite their modest official salaries and by foreign investors’ apparent willingness to buy political support. From 2016, the party and the government increased its anti-corruption rhetoric, but implementing anti-corruption law remains a great challenge, especially at the upper levels of the party where the levels of graft are presumed to be greatest. The head of the LPRP inspection commission and the state anti-corruption agency, Bounthong Chitmany, has taken the lead in these efforts. Two governors lost their jobs in 2017–18 due to corruption, and these men and one other official failed to gain re-election to the LPRP central committee in January 2021. These cases aside, most prosecutions have targeted lower-ranking officials.

Policy coordination



Anti-corruption policy



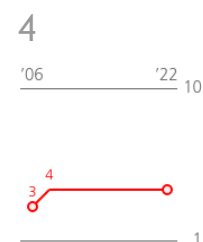
Corruption is encouraged not just because of practices of patronage, but also because of the secrecy of the party, its structure, and the extraordinary overlap between party membership, government, the bureaucracy and the judiciary. Party finances are not published, officeholders are not usually held to account (despite efforts such as introducing an assets register) and the activities of the central committee are not publicized. The problem of corruption has been frequently raised in the National Assembly, but again specific allegations and names are rarely mentioned. Nevertheless, anecdotal evidence suggests that the rising levels of corruption have translated into diminishing popular support for the party. This probably explains increased pronouncements on the need to reduce corruption and crack down on offenders, including again at the most recent national party congress in January 2021.

16 | Consensus-Building

Although “consensus” and “democracy” are core rhetorical values of the LPRP regime, the stifling of dissent hinders an evaluation of the existence – or lack – of consensus regarding democracy in Laos. The state and many people seem to concur that the stability of Lao politics is a source of pride when compared to Thailand and Myanmar next door, whose political crises have been displayed over Thai television (which most Lao watch). More substantively, however, civil society organizations have not been allowed to flourish outside of the structure of the LPRP. Though it is not possible to penetrate internal party dynamics, the LPRP appears to maintain a stable monopoly on political power, suggesting a high degree of internal cohesion. Certainly, no senior party figures can be heard advocating multiparty democratic reforms.

Key decision makers within the party also appear to agree that the best way to develop the economy is by maintaining the current multi-sectoral economy, which combines market-based elements (especially for attracting foreign investment) with state economic planning and enterprises. There is broad support, in the party and beyond, for the Vision 2020 strategy that aims for Laos to graduate from LDC status by 2020 – deferred to 2024 – which has dominated the country’s development strategy over the past decade. Beyond that, there is less consensus on the purpose of economic development. While some leaders and bureaucrats are motivated by the desire to eradicate poverty, develop the country’s human resources and reduce inequality, others seem to embrace growth as a means to enhance business interests and – in some cases – their personal wealth. Many elites, including entrepreneurs and urbanites, place high social value on prosperity and progress, while others seek to promote a more equitable society through human-centered development policies. Since 2012, however, pressure on civil society organizations focused on social and environmental justice has further restricted discussions of alternative development priorities. As in the political sphere, the relative lack of dissent is more likely an indicator of repression than consensus.

Consensus on goals



The few reformers existing in Laos – inside or outside the party – have little or no control over the anti-democratic actors that make up the one-party system. Those inside the party who express their belief in reform have been relieved of their positions, while non-party actors promoting reform have been deprived of a platform, arrested and occasionally disappeared. Actors of any kind that advocate greater democratization are in a small minority.

Political cleavages in Laos are rarely ideological. Rather, cleavages arise from competition for resources between powerful patrons and their clients, between provincial and regional interests, and between the dominant lowland Lao and ethnic minorities who believe they are not being treated equitably. The party cannot eliminate these divisions, but it has been relatively effective in preventing them from escalating. Unity, solidarity and equality are key words in everyday Lao politics. Compromise is common among the Lao, who prefer to avoid face-to-face conflict. The democratic centralism that operates within the LPRP and the Lao front for national development (formerly construction), the party's front organization, also helps build consensus through lengthy meetings at all levels of society.

From time to time, there are reports of tensions in the party between military and civilian factions, old-guard revolutionaries and new-generation technocrats, and those who lean toward China rather than Vietnam, but such reports are largely based on rumors or speculation since differences are never aired publicly.

Existing civil society organizations – associations, communities, intellectuals, scientists or journalists, regardless of their autonomy or otherwise from the party-state – are either created by or vetted by the party-state. Nevertheless, some are significantly involved in political processes. For instance, the Lao women's and youth unions are involved in policy processes, and channel information between members and the leadership. There is a hotline on which citizens can call the National Assembly directly to raise questions. There are forums where intellectuals and scientists can report their research findings to policymakers. While these channels remain weak, there is significant interest in strengthening them. The COVID-19 response included daily press briefings in which representatives of the COVID-19 taskforce could be questioned directly by the press and citizens could submit questions by social media. Zoom meetings were used to bring together provincial and district governmental and non-governmental representatives to answer questions about the COVID-19 response and provide feedback from the regions to the central level.

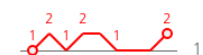
Anti-democratic actors



Cleavage / conflict management



Civil society participation



Particularly over the past 10 to 15 years, the LPRP has reached out to overseas Lao communities that fled the country after the 1975 revolution in an attempt to achieve reconciliation. These efforts have included encouraging expats to return to and invest in Laos, and symbolically inviting overseas Lao delegations to attend high-profile national events. However, reconciliation takes place purely on the terms of the regime, which continues to legitimize its rule by celebrating the history of revolutionary struggle. Although the government does not permit dual citizenship, overseas Lao may visit Laos or relocate permanently for work or business. Like other former opponents of the regime, however, they are proscribed from involvement in politics.

The government also made an effort to bring about reconciliation with those Hmong and other ethnic minority populations who fought on the Royal Lao side during the “30-year struggle” (1945 – 1975), offering amnesty to all who surrendered. However, those who did not accept this offer were subject to continuing military repression. Although the treatment of Hmong who surrendered in the late 2000s was not transparent, the government has more recently allowed international observers to establish contact with those resettled. Significant injustices perpetrated during the war period, such as alleged rapes and forced marriages by Royal Lao government officials in rural and remote areas, have not been officially recognized or dealt with. Likewise, the “re-education camps” installed after the revolution were experienced by many as unjust (and indeed it is thought that the last Lao king died in such a camp) but there has been no attempt to recognize or seek resolution regarding these events.

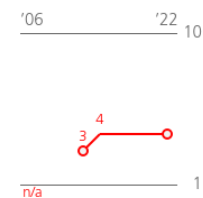
17 | International Cooperation

Laos has been remarkably successful in attracting foreign aid from across the ideological spectrum. In order to do so, it includes development partners in triennial roundtable meetings (RTM), which help to develop and monitor its five-year NSEDPs. While the government presents itself as willing to consider economic reforms in order to bring about greater administrative efficiency and transparency and agrees to make sufficient progress to ensure that economic assistance continues, it resists international pressure for democratic reform. This is a fine line but one the government has navigated nimbly. Authorities have been slow to implement agreed-upon reform programs, and many in the international community have become frustrated and suspicious of affable Lao promises.

Increasing aid and investment from Chinese, Vietnamese and other Asian sources – which comes with fewer strings attached – has provided an appealing alternative and greater opportunities for rent-seeking. Such funding sources also suit the Lao government since, having undertaken their own economic transformations in recent years, these donors are generally sympathetic with the Lao government priorities of building major infrastructure and maximizing GDP growth. Many of the country’s

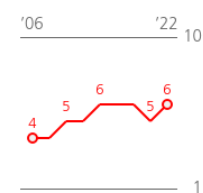
Reconciliation

4



Effective use of support

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highest-profile projects in recent years, such as the Laos-China railway, the Vientiane-Vang Vieng Expressway, and dams on the Mekong River and its tributaries, have been funded with support from such partners. Nevertheless, the government continues to demonstrate refusal to yield to international criticism in the wake of the construction of the Mekong dams, even if raised by traditional allies such as neighboring Vietnam.

The COVID-19 economic downturn forced the government to acknowledge that indiscriminate borrowing for several hydropower projects had resulted in a growing debt burden, which has ultimately imperiled the economy. More positively, Laos received assistance from a range of development partners to counter the pandemic, including China, Vietnam, the United States, the European Union, the World Bank, the Asian Development Bank (ADB) and UNICEF.

The Lao government has generally been considered a reliable partner by international organizations, NGOs and bilateral partners. Western partners have expressed frustration with the government on occasion, but relations are usually retained for broader strategic reasons. Due to its isolated geographic position as the only landlocked country in Southeast Asia and its lack of economic power, Laos is not a significant actor in international affairs, but its location is generating increased engagement with its Asian neighbors, especially China. The international business community that is present in Laos consists mostly of private or state-owned businesses from China and other Southeast Asian countries; that is, economic actors accustomed to and with experience in the kind of informality and limited predictability that characterizes the business environment in Laos.

Because most relevant economic partners are either authoritarian governments or come from non-democratic countries, and international development agencies tend to emphasize social and economic development aims over political and democratic goals, Laos' unwillingness to reconsider the state of human rights and democracy does not constitute a significant barrier to international cooperation. Environmental concerns have received more attention, mostly due to pressure from international partners. But as the development of dams and hydropower projects indicate, the Lao government does not seem to feel constrained in a way that would require fundamental policy changes. Although there were early doubts about the veracity of Laos's statistics given the low numbers of reported COVID-19 cases, the government has come to be seen as an open and responsive partner in health matters pertaining to the pandemic. However, the economic aspects of the crisis undermined confidence, given the frequency of warnings over fiscal and debt vulnerabilities.

Credibility

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Laos joined ASEAN in 1997 and places a premium on its membership. Laos is also an enthusiastic member of the Asian Development Bank's Greater Mekong Subregion (GMS) scheme, which includes Yunnan province and Guangxi autonomous region in China, as well as the mainland ASEAN states. It has embraced a number of "economic corridors" linking GMS members as a means of transforming Laos from a landlocked to "land-linked" country. In 2015, Laos joined with its mainland southeast Asian neighbors in the China-driven Lancang-Mekong Cooperation (LMC). Laos attended the first three LMC summits in 2016 (China), 2018 (Cambodia) and 2020 (online). During the review period, Laos became an inaugural member of the Regional Comprehensive Economic Partnership (RCEP), which is expected to benefit the country considerably through economic integration and the relocation of global value chains.

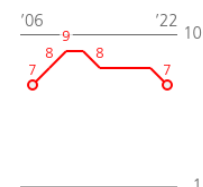
Despite Laos's enthusiasm for regional integration, the country continues to retain its closest political relationship with its "fraternal" communist ally, Vietnam. But as the LMC, RCEP and surging infrastructure investments show, it has also grown progressively closer to China and in recent years has built closer political links with its vast northern neighbor. While press reports sometimes speculate over the relative influence of Vietnam and China in Laos, the LPRP continues to balance the two relationships in recognition that both countries are of critical importance. For example, Laos has been careful not to take China's side in regional disputes involving fellow members of ASEAN.

Nevertheless, Laos's growing economic dependence on China became one of the main themes of 2020 as the COVID-19 pandemic exacerbated existing indebtedness caused by over-investment in Chinese-funded hydropower projects. Although most details of the economic relationship are obscured from public view, it seemed inevitable that Laos would be forced to reach a debt restructuring agreement with China in order to avoid debt default, and financial and economic crises. Besides Vietnam and China, Laos maintains a substantial economic and amicable political relationship with Thailand, and reasonable political and economic relations with Cambodia following the resolution of a border dispute in 2017.

Despite its general constructive neighborliness, in recent years, Laos has disagreed with fellow members of the Mekong River Commission, which was established in 1995 to manage the lower basin. At the time of writing, the government was proceeding with plans for and the construction of four more Mekong mainstream dams in the northern half of the country, having completed two others. In all of these cases, Laos's willingness to act unilaterally, despite the profound regional implications of doing so, struck a vivid contrast with the country's studious membership in ASEAN, the GMS and other regional forums.

Regional cooperation

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Strategic Outlook

The economic downturn triggered by the COVID-19 pandemic presents serious problems for Laos's efforts regarding economic transformation. The country's major structural weaknesses – its fiscal deficit, public debt, current account deficit and dwindling foreign reserves – predated the pandemic but have been severely exacerbated by it. Although the World Bank expects the economy to grow at almost 5% of GDP in 2021 and 2022, the government will have to address the country's structural economic vulnerabilities in order to achieve better social returns on economic growth and to insulate the economy from future shocks.

Coincidentally and perhaps fittingly, a new LPRP leadership and government will be tasked with navigating these challenges. The five-yearly renewal of the party and state leadership that opened with the 11th party congress in January 2021 will conclude in February with an election for the National Assembly and the appointment of the new executive. Even before the latter two events, the national congress had hinted at the regime's openness to changes in political and economic emphasis.

Besides Thongloun Sisoulith succeeding Bounnhang Vorachit as general secretary, the congress elevated Phankham Viphavanh and Bounthong Chitmany – technocrats with extensive experience in party organization, propaganda and training – to key senior positions. With such figures in charge, the party hierarchy is headed for the first time by career cadres and educators rather than wartime commissars and soldiers. It seems possible that these men will step up Thongloun's efforts as prime minister to strengthen party discipline and anti-corruption efforts. Pointedly, outgoing party boss Bounnhang has warned the congress that the party could become obsolete if it fails to reform itself.

If such hints were veiled, statements on the economy provided clearer insights into possible shifts in the regime's economic policy. First, the fact that Thongloun's advocacy of "stable, quality and sustainable" economic growth was backed by a reduced GDP growth target (4% p.a.) suggests that this may be different from similar pronouncements in the past. Second, although the LPRP remains committed to hydropower as the key driver of growth and foreign earnings – and acknowledges the key role of China, and other lenders and investors in financing this program – Thongloun reiterated the need for the sector to exercise greater financial prudence. Specifically, he stressed the need for state entities involved in ineffective investment to take responsibility for mistakes in accordance with the law – a statement that might imply a crackdown on unscrupulous financial deals responsible for excessive expenditure and indebtedness.

Of course, these possible changes face obstacles in the form of patronage and sectoral interests. Nevertheless, international agencies, NGOs and bilateral development partners may be able to find areas of common ground in sectors such as education, health care, and, increasingly, governance and legal reform. To take the last of these, the government's "rule of law" program is focused more on building a strong state than liberal notions of rights and development partners will face

disappointment if they push Laos to adopt liberal political reforms. However, international partners should be encouraged to seek out areas of common concern, such as programs for implementing and consolidating the many laws that the government has introduced over the past decade. Although China looms ever larger as Laos's economic dependence on its northern neighbor deepens, Laos has always engaged multiple partners of differing political and ideological persuasion. As difficult as it may be at times, such engagement will be most effective if agencies listen to the needs of Lao leaders and subtly raise the national benefits of cooperating with a range of different countries, as the country takes steps to recover from the recession triggered by the coronavirus crisis.