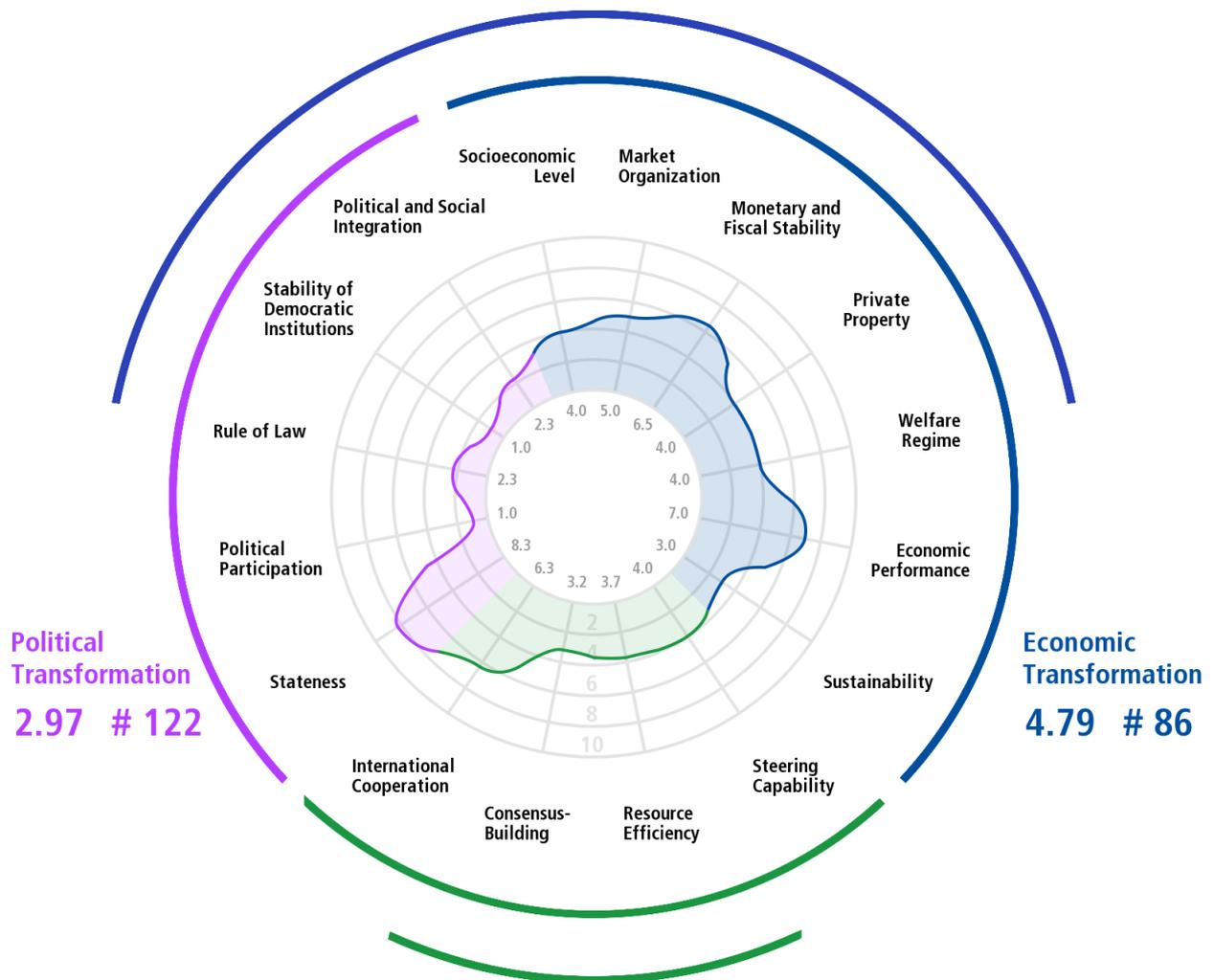


Laos

Status Index

3.88 # 112

on 1-10 scale out of 137



Political Transformation
2.97 # 122

Economic Transformation
4.79 # 86

Governance Index

3.96 # 101

on 1-10 scale out of 137

This report is part of the **Bertelsmann Stiftung's Transformation Index (BTI) 2020**. It covers the period from February 1, 2017 to January 31, 2019. 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>.

Please cite as follows: Bertelsmann Stiftung, BTI 2020 Country Report – Laos. Gütersloh: Bertelsmann Stiftung, 2020.

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Key Indicators

Population	M	7.1	HDI	0.604	GDP p.c., PPP \$	7441
Pop. growth ¹	% p.a.	1.5	HDI rank of 189	140	Gini Index	36.4
Life expectancy	years	67.3	UN Education Index	0.481	Poverty ³	% 58.7
Urban population	%	35.0	Gender inequality ²	0.463	Aid per capita \$	68.4

Sources (as of December 2019): The World Bank, World Development Indicators 2019 | UNDP, Human Development Report 2019. 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

In the past two years, the Lao People’s Revolutionary Party (LPRP) led Laos to high and low watermarks in its long-established strategy of state-managed, market-oriented economic transformation under one-party rule. In March 2018, the United Nations Economic and Social Council announced Laos was eligible to “graduate” from Least-Developed Country (LDC) status, and would do so in 2024, provided it again fulfilled the criteria in 2021. First mentioned in 1993, this much cherished and often-repeated goal has formed the cornerstone of the LPRP’s development strategy since the sixth party congress in 1996. With only a handful of countries having previously made this transition, being on the brink of doing so is testimony to Laos’ impressive transformation since then.

On the other hand, the human and environmental costs of the state’s development strategy were tragically highlighted in July 2018 by the collapse of a saddle dam of the Korean-funded Xe Pian Xe Namnoy hydropower project (PNPC) in Attapeu province. The sudden inundation that followed officially killed 42 people (probably many more) and displaced thousands. Although the government initially suggested heavy rains were responsible for the breach, it later blamed substandard construction. Foreign observers were quick to point the finger at alleged cost cutting by the project consortium, poor dam design, and, ultimately, inadequate state regulation. This attracted scrutiny of the government’s controversial strategy of becoming the “battery of Southeast Asia,” and ultimately its natural resource-based strategy for development.

Yet, if the PNPC disaster was unprecedented in its scale and suddenness, it was hardly the first development project in Laos to inflict harm on local people and environments. The LPRP strategy of granting land concessions for mining, hydropower development and commercial agricultural and forestry – a key part of its “turning land into capital” (TLIC) strategy – has had a destructive impact on people and places all over the country. The party-state is not unaware of the problem, nor completely unresponsive. In August 2017, the party central committee issued a resolution acknowledging the TLIC strategy’s shortcomings, including the lack of a comprehensive legal

framework and the potential it had to undermine public order. This was part of a wider effort by the Thongloun Sisoulith government (appointed in 2016) to address sources of discontent, including corruption, illegal logging, and the drug trade, signaling the party's recognition of the threat these issues posed to LPRP legitimacy.

However, addressing factors contributing to the dam disaster will be more difficult since they relate to fundamental limitations in Lao governance, including the persistence of informality and weak regulatory capacity. As in past review periods, the ruling party has sought to address this dilemma through its legal sector master plan on the development of the rule of law (2009), which aims (with UNDP assistance) to make Laos a “rule of law state” by 2020. Despite the passage of many new laws and the revision of existing ones, the challenge of implementation remains vast and unmet. Indeed, rather than striving to improve transparency and accountability – which is essential if complex sectors such as hydropower development are to be managed effectively – legislative reform often appears to be aimed at formalizing the central role and prerogatives of the party. If this goal is explicit and reflects a Marxist-Leninist approach to institution building, it nonetheless undermines transparency and limits the capacity of the non-state sector to contribute to development. Correspondingly, the civil society sector has continued to be constrained during the review period, with reports suggesting the onerous demands of the revised decree on associations (2017) has prevented some associations from registering.

History and Characteristics of Transformation

The Lao People's Revolutionary Party (LPRP) came to power in 1975 as a Marxist-Leninist regime modeled on that of the Democratic Republic of Vietnam. Since then, no substantial democratic reforms have been enacted, nor are they likely in the foreseeable future. Upon coming to power, the LPRP also transformed the economy along socialist lines. It nationalized industry and financial institutions and encouraged the formation of agricultural cooperatives. Peasant opposition and collapsing production forced the party first to modify its hard line in 1979, then in 1986 to embark on a reform program known as the new economic mechanism (NEM), which set in motion the transition from a centrally planned economy to a “multi-sectoral” or hybrid economy, defined as a “market economy regulated by the government.” Although the party officially retained – and still retains – the achievement of socialism as a future objective, this became an ideal rather than an immediate goal. The formation of cooperatives was abandoned, 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. The changes in Laos were driven by the party's powerful secretary-general, Kaysone Phomvihane, who, with Vietnamese support, won the party's backing despite pockets of internal opposition.

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 their 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 1998 and 1999, the Asian economic crisis hit Laos, resulting in increased government spending, sudden inflation and a slowing of growth that shocked the party leadership. For a period, further reforms toward a market economy were either put on hold or reluctantly agreed to but never implemented. Nevertheless, the momentum of liberalization was renewed in order for Laos to qualify for membership of the WTO (2013) and ASEAN Economic Community (2015). 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 has surged by an average of 8% per annum since 2005. 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. After dipping slightly, annual GDP growth exceeded 8% in the period 2010 to 2013 and has remained robust since then. 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, large-scale granting of state land concessions for mining, hydropower and commercial agricultural development resulted in widespread dispossession of farmers’ land and communal forest. 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. Although anti-corruption legislation was enacted and a new campaign launched around the time of the most recent party congress in 2016, no senior political figure has yet been publicly prosecuted.

In the cultural sphere, the LPRP regime has since the 1990s embraced aspects of pre-1975 Royalist-Buddhist nationalism. As the party-state builds new statues of historical kings and performs the role of the protector of Buddhism, the monarchy exerts a phantom influence that adds to the Lao state’s strangely hybrid image.

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 a small number of attacks on buses and private vehicles in the north-central region of Laos, particularly in Xaysomboun Province, an area where Hmong insurgents formerly operated, but there was no indication that these were related to past incidents. Rather, since Chinese workers were killed in these attacks, observers speculated that they were related to disquiet over Chinese development projects or perceptions of Chinese influence. In 2017, after another worker was killed in Xaysomboun, the Chinese government issued a safety advisory for its citizens living or working in Laos. After reflexively condemning earlier attacks as the work of “militants,” the Lao government appeared to respond to Chinese requests for security, and no further incidents took place in 2018 or early 2019.

The number of ethnic groups recognized by the state reached 50 in 2018 with the official addition of the Bru (a Mon-Khmer group). Nevertheless, both the nationality and “race” of all ethnic groups noted on identity papers is “Lao.” While in the past some ethnic minorities, such as certain Hmong groups, rejected the dominant concept of the nation-state, the vast majority of the population now accepts it as legitimate. Lao officials reportedly still discriminate against rural minority ethnic groups, particularly by requiring them to give up or modify their practice of shifting cultivation as part of state development policies

Chinese and Vietnamese of Lao nationality are not considered members of the Lao “race,” though they enjoy the same constitutional civic rights and responsibilities of other citizens. In addition, a small number of non-Lao citizens (45,000) also reside in Laos, coming mostly from Vietnam and China, though the official figure probably underestimates the real number, which is increasing due to irregular migrant labor. Members of the Lao diaspora are of Lao “race,” but not nationality. Laos does not recognize dual nationality, but Lao with foreign citizenship may invest and live in Laos.

Question
Score

Monopoly on the
use of force

8



1

State identity

9



1

The Lao state is secular. There is no discrimination against non-Buddhists under the law or by political institutions. Non-Buddhists do have access to high-ranking positions in the National Assembly and the LPRP central committee, and approximately 30% of the central committee are non-Lao.

According to the 2015 census, 64.7% of the population adhere to Theravada Buddhism, while most of the remainder is officially classified as having “no religion,” which in most cases means they are oriented toward local, ethnic religions, colloquially called “spirit religion.” While the country officially endorses religious freedom, non-Buddhist proselytism is closely surveilled, and those converting to Christianity (usually ethnic minorities) are occasionally persecuted. However, this is motivated less by religious issues than by fear of foreign (Western) influence.

National identity construction and state ritual show a clear Buddhist bias. The party leadership has taken on the role of protector of Buddhism (supporting the sangha and using Buddhist symbolism and mythology to enhance its legitimacy). Substituting for the gradual loss of revolutionary legitimacy, the LPRP regime has especially since the 1990s embraced aspects of pre-1975 Royalist-Buddhist nationalism. As the party-state builds new statues of historical kings and performs the role of the protector of Buddhism, the monarchy exerts a phantom influence that adds to the Lao state’s strangely hybrid image.

Despite the government policy of resettling rural and remote villages to create “focal zones” with better access to services (health, education), service delivery remains uneven in these areas. At a national level, access to improved sanitation and water sources has increased markedly over the past decade (to 71% and 76% respectively in 2015, compared to 43% and 57% in 2005). Transportation and communication links in remote areas, however scarcely spread, are slowly being improved, but the topography of Laos is challenging and authorities are working from a very low starting point. Perhaps the brightest spot is the success of the government’s electrification program, which began in the 1990s and has since seen access to electricity improve from just 15% of households in 1995 to 94% in 2017.

No interference of religious dogmas

9



1

Basic administration

7



1

2 | Political Participation

Legislative elections are held every five years, most recently in March 2016, but besides a few independents, all candidates are party members and all (including independents) are vetted by the party-controlled Lao front for national development.

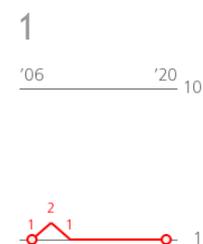
Although some candidates campaigned quite vigorously on local issues in 2016, none expressed anything more than mild criticism of the government. Nor was there any critical discussion in any of the entirely party-controlled media outlets. In 2016, elections also took place for the first time at the provincial level, but were subject to the same party domination as the national elections. Village heads must be approved by the party, and while generally appointed, may be selected through communal approval. Power remains firmly in the hands of the politburo and the central committee, which determines policy matters and, as a result, the legislative program.

According to the principles of Marxist-Leninist one-party rule, the leadership of the LPRP governs through its control of all political institutions, including the executive and the National Assembly, which possesses no power autonomous of the party. Other potential veto players are either central components of the political structure, such as the politburo 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. 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.” Likewise, while a National Assembly hotline enables citizens to voice grievances and has increased government awareness of issues of public concern, it provides no formal guarantee of participation or response. Nevertheless, statements by the Thongloun Sisoulith government (appointed in 2016) appear to show awareness of concerns that have been previously voiced in the National Assembly, such as illegal logging, land concessions and compensation.

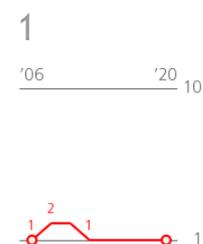
In theory, article 44 of the constitution (last amended in 2015) provides rights of assembly and association, “which are not contrary to the law.” In practice, this circumscription results in severe curtailment of these freedoms. There are no opposition political parties, nor is there freedom of assembly. 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 2017) required local non-profit associations (NPAs) to register with the government for the first time since 1975. While the decree was seen by many observers as an important reform in terms of developing civil society, it was explicit in requiring NPAs to support state development plans and to operate in line with government policies. The amendments added additional bureaucratic barriers to registration, extended the range of prohibitions applied to NPAs, and required government approval of all sources of

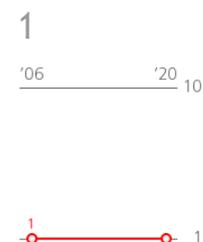
Free and fair elections



Effective power to govern



Association / assembly rights



foreign funding. By mid-2018, these impositions were reportedly affecting the ability of some groups to register as NPAs. In other words, it did not herald a shift toward the development of civil society in the liberal tradition, but instead provided a means of centralizing and formalizing oversight of the civil society organizations (CSOs) that had emerged in various guises over the previous decade.

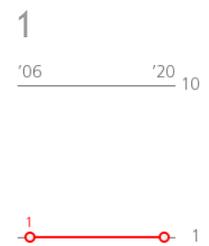
Media organizations in Laos are controlled by the LPRP through the ministry of information and culture. Although independent lifestyle magazines have proliferated, these publications avoid controversial issues and there is no plurality of political opinion in the state-controlled media. Opinion cannot be freely expressed in any public forum, nor through public protests or demonstrations. A media law presented to the National Assembly in July 2008 has done nothing to reduce government control over political coverage. 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 online sphere appears more difficult to curtail. While the emergence of small information-sharing groups reinforces the potential of the internet to serve as a medium of political expression, pervasive self-censorship has tended to restrict its capacities to do so. In 2014, the government extended its control by regulating internet communication. Parts of this decree – protection of the LPRP and the nation’s peace, independence, sovereignty, democracy, and prosperity – are open to broad interpretation and abuse. On the other hand, widespread use of social media circumvented the trickle of official information in the aftermath of the July 2018 Xe Pian Xe Namnoy hydropower disaster. According to some accounts, online discussions directed an unusual degree of criticism toward government relief efforts, though few commentators were sufficiently emboldened (or informed) to mount serious criticism of the policies that led to the disaster.

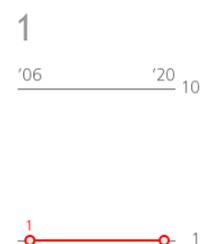
3 | Rule of Law

The Lao constitution outlines a formal separation of powers between the legislative (National Assembly), executive and judicial arms of the state. In fact, however, all remain subject to the ruling LPRP, whose leaders can and do override constitutional provisions. This renders de jure provisions of checks and balance subordinate to the party. What does exist in terms of the de facto division of labor between different branches of government and layers of the political system does not reflect constitutional principles, but rather power politics and the centrifugal tendencies of a highly decentralized authoritarian regime held together by the organizations of the LPRP. As a result, no checks and balances apply between the three branches of government. Nor is there a constitutional court to judge the validity of legislation.

Freedom of expression



Separation of powers



The judiciary is institutionally differentiated but, despite the assertion of independence contained in the constitution, 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 reiterates 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 law and regulation. However, few laws are widely known or applied, and other areas related to the plan, such as the implementation of human rights protection, show no sign of progress. Thus, despite significant legal engagement, the rule of law functions primarily as a discursive device legitimating state power. 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 remains under the supervision of the ministry of justice.

Abuse of office is widespread. Virtually anyone holding an official position, whether in the civil service or local administration, uses it for personal gain. In general, officials – especially senior officials – have felt safe in assuming their malfeasance would go unpunished. Until recently, while minor officials would occasionally be prosecuted under the anti-corruption law (2012), no senior party leaders had been targeted publicly. Complaints to the police (where the police are not at fault) or to the office of the public prosecutor usually go nowhere. Laos has no ombudsman.

There has been a pronounced change in tone, if not substance, since the present government of Thongloun Sisoulith took office in 2016. During the LPRP Congress in January 2016 and the months that followed, multiple press reports highlighted the activities of the party inspection committee and state inspection authority in disciplining officials. Similar reports have become a staple of the state-run press. While offenders were generally left unnamed, the publication of detailed statistics on the number of investigations, prosecutions and the costs of corruption to the government’s finances was unusual. Moreover, two provincial governors were exposed and publicly removed from office for alleged corruption (although it was not reported whether they had been charged or prosecuted). On the other hand, 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 generally go unreported.

Independent judiciary

2

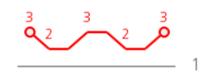
'06 _____ '20 10



Prosecution of office abuse

3

'06 _____ '20 10



Although civil rights are in principle protected by the constitution, widespread violations occur. Rights of assembly and the free expression of political beliefs are nonexistent. 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 companies (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. Since the enforced disappearance of Sombath Somphone in late 2012, the self-regulation of civil society organizations has increased, and the public political sphere has waned. In 2016, the government canceled the ASEAN People’s Forum citing concern over potential criticism of regional governments. This came as little surprise given the threats and intimidation that marred the 2012 Asia-Europe People’s Forum, the last time Laos hosted such a meeting.

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, it is not elected in a free and fair manner and is entirely dominated by the party, as are all levels of government and the administration. In practice, the judiciary is also a party instrument. According to the official creed of “democratic centralism,” the views of grassroots party members are supposed to be channeled up the party hierarchy for the central committee to consider during policy formulation. The reality is more complicated. While district, provincial and ministerial party committees have some autonomy to elect party secretaries, policy formulation occurs top down, and decisions by the party leadership must be accepted. While the congresses of the LPRP – held every five years – provide an opportunity for policy reform, as on previous occasions, the most recent congress (2016) contained no indication of liberalization.

Civil rights

3

'06 '20 10



Performance of democratic institutions

1

'06 '20 10



As all political and state institutions are part of the LPRP-dominated party-state, there are no democratic institutions in Laos. 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 2016, when the Tenth Party Congress was held, party membership was officially reported to be 268,431 (representing a little over 4% of the population). Membership is attractive to those who are politically ambitious and to those who seek to tap into networks of influence. The party actively recruits members from among the educated elite, and even some businessmen are party members.

Party system



The party’s mass organizations include the Lao federation of trade unions, Lao women’s union, Lao people’s revolutionary youth union and Lao front for national development, which 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 non-party CSOs – including associations, foundations, and other groups – has been permitted since the decree on associations was passed in 2009. A separate decree on foundations was passed in 2011. These decrees formalize and regulate the activities of the growing civil society sector in line with party-state policies. Especially after 2012, the environment in which civil society organizations operate became highly restrictive. This shift was formalized in the revised and expanded decree passed in 2017, which clarified the obligation of associations to work in line with state development policies and required them to gain government approval of foreign funding. The most recent directory of CSOs (2017) lists only 63 organizations, fewer than were listed in 2014. 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 whatever local civil society does exist. 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 is cannot be assessed.

Approval of democracy

n/a

'06 _____ '20 10

Although survey data on this matter does not exist, a relatively high level of trust in family structures can be assumed at village level. 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), but not however to the wider society. After the 1975 revolution, non-state social organizations were not permitted, except in cases of spontaneous village cooperation, and all 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 corroded trust and cooperation, conditions for autonomous organization have remained highly restrictive. Despite the perceived promise of the decree on associations, confinement of civil society activities since 2013 has created fear and distrust, reminiscent of Laos's more oppressive past. Outside of the political sphere however, a number of social and cultural groups exist, especially in Vientiane, and interest in such communal activities has grown noticeably with increased prosperity.

n/a _____ 1

Social capital

5

'06 _____ '20 10



II. Economic Transformation

6 | Level of Socioeconomic Development

The Lao government has continued to make impressive progress in terms of socioeconomic development. In March 2018, the United Nations Economic and Social Council announced the country was eligible to graduate from Least-Developed Country (LDC) status, a goal that has guided the government's economic development strategy since 1996. The country had easily surpassed two of the three criteria for graduation, gross national income and the human assets index, while narrowly achieving the third, the economic vulnerability index. Provided it can fulfill the criteria again in 2021 – only two of the three criteria are required for graduation – Laos will formally be removed from the list of LDCs in 2024.

Question
Score

Socioeconomic barriers

4

'06 _____ '20 10



With support from the World Bank and Asian Development Bank, the government has made significant progress in its long-term poverty reduction program. Poverty levels – both absolute and relative – have been reduced significantly. Between 1992 and 2012 (the latest year for which figures are available), the proportion of the

population living below the national poverty line virtually halved from 45% to 23%. If measured as those living on or less than \$3.20 a day (2011 purchasing power parity), the poverty rate would be higher at 58.7%. However, this and other poverty figures will have fallen since 2012 when the most recent data was recorded. More broadly, Laos' human development index score stood at 0.601 (139th out of 189 countries) in 2017, representing a slight gain since 2016 (0.598), and a 50% increase since 1990. Life expectancy over this period has improved from 53.6 to 67 years, mean years of schooling from 3.1 to 5.2 years, and GNI per capita (2011 purchasing power parity) from \$1,732 to \$6,070.

These gains have been built on sustained levels of economic growth, among the highest in the region. Nevertheless, the reduction in poverty generated by this growth has in fact lagged behind comparable countries in the region such as Cambodia, Vietnam and Indonesia. This is due to the disproportionate dependence for growth on the capital-intensive natural resources sector, which does not translate into employment and household consumption.

Despite the socioeconomic progress that has been made, inequality remains significant and structurally ingrained. According to the World Bank, rural poverty remains up to four times higher than in urban areas (40% and 10% respectively), despite remittances from rural migrants seeking employment abroad (especially in Thailand). Additionally, gross corruption has concentrated wealth in the hands of a relatively small political elite. In 2012, the Gini coefficient of income distribution improved slightly to 36.4 (compared to 37.9 in 2008), but this was still significantly worse than 2002 (32.6).

The Lao regime proclaims its support for both ethnic and gender equality but, in both cases, inequality reflects structural characteristics. In particular, poverty, poor infrastructure and weak government services in remote and mountainous parts of the country continue to place ethnic minorities at a disadvantage. However, the inequality between different social or ethnic groups is not culturally ingrained and does not impede significant vertical and horizontal social mobility by some in these groups.

The picture is more encouraging in the case of addressing gender exclusion. Laos's gender inequality index improved significantly from 0.534 in 2013 to 0.461 in 2017, a result that was also significantly better than 2012 (0.496). This saw the country's rank improve from 118 out of 152 (2013) to 109 out of 160 (2017), comparable to its 2012 result (100 out of 148 countries). Nevertheless, one area of persistent gender disadvantage is education. Despite steady improvements, only 33.6% of females have at least some experience of secondary school compared to 45.2% of males. Female adult literacy also remains significantly lower than male (79.4% compared with 90% in 2015). On the other hand, women comprise half the labor force (with a participation rate of 76.9% as compared to 79.7% for men) and received 27.5% of the seats in the National Assembly in the 2016 elections, a relatively high proportion for the region.

Economic indicators		2015	2016	2017	2018
GDP	\$ M	14390.4	15805.7	16853.1	18130.7
GDP growth	%	7.3	7.0	6.9	6.5
Inflation (CPI)	%	1.3	1.6	0.8	2.0
Unemployment	%	0.7	0.6	0.6	0.6
Foreign direct investment	% of GDP	7.5	5.9	10.0	7.3
Export growth	%	6.7	10.5	11.0	-
Import growth	%	4.0	4.6	5.0	-
Current account balance	\$ M	-2267.6	-1384.7	-1259.8	-1430.4
Public debt	% of GDP	53.1	54.2	55.8	57.2
External debt	\$ M	11641.6	13535.2	14651.4	15587.7
Total debt service	\$ M	420.6	556.7	781.4	926.1
Net lending/borrowing	% of GDP	-	-	-	-
Tax revenue	% of GDP	-	-	-	-
Government consumption	% of GDP	15.1	14.0	12.9	-
Public education spending	% of GDP	-	-	-	-
Public health spending	% of GDP	0.9	0.8	-	-
R&D expenditure	% of GDP	-	-	-	-
Military expenditure	% of GDP	-	-	-	-

Sources (as of December 2019): 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

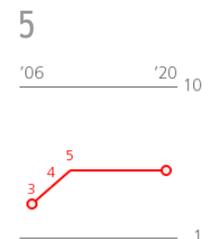
Since the 1980s, Laos has made considerable progress in moving from a command economy to a mixed economy with many market features. Prices are set by the market, the Lao kip is convertible and profits from foreign investments can be transferred abroad. However, competition operates within a relatively 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 to be “strategic” enterprises.

In 2018, such elements prompted the World Bank to caution that the business environment in Laos was no longer improving and might in fact be deteriorating. In its Doing Business 2019 report, Laos ranks 180 out of 190 countries in the category of starting a business. It takes 10 procedures, 174 days (the second longest time period among all countries, after Venezuela) and costs 6.6% of GNI per capita to start a business. According to the 2016 World Bank Enterprise Survey, in which 77% of the surveyed firms claimed to compete against unregistered or informal firms, the activities of the large informal sector represents the main constraint on business activity. The high level of informal activity by formal firms also represents a serious impediment to business. Other constraints identified included high taxes, transportation, electricity, and inadequately educated workers.

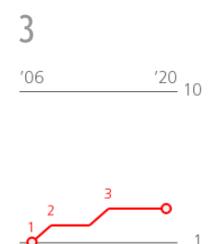
In 2015, the National Assembly passed the law on business competition, substantially expanding the regulatory framework created under the rudimentary decree on trade competition (2004). In addition to being a requirement of the ASEAN economic community blueprint, in which member countries endeavored to legislate competition policy by 2015, the new law can be seen as a component of the government’s ongoing effort to establish Laos as a “rule of law state.”

Whereas the existing decree provided only a rudimentary framework for regulating competition and monopolies, the new law addresses four substantive areas: uncompetitive trading practices; anti-competitive agreements; abuse of market power and monopolization; and anti-competitive mergers. It also lays the foundation for the creation of the business competition control commission and its secretariat, to investigate and enforce competition violations. The Lao business competition control commission (Lao BCC) is intended to be a mixed body of professional and government officials and not a politically independent institution. However, like the trade competition commission envisaged by the 2004 decree, the commission does not yet appear to have materialized. If and when it does appear, the commission will

Market organization



Competition policy



face an imposing challenge implementing and enforcing the principles of the new law. Given the prevalence of informal practices in the formal sector of the economy, regulations have long been circumvented through political contacts, and a number of expanding business groups depend upon political connections.

While most state-owned enterprises (SOEs) have been sold off or otherwise privatized, the government retains control of those 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 new 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), it 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 is a member of the ongoing regional comprehensive economic partnership (RCEP) negotiation. The country’s Most Favored Nation applied tariff rate averaged 8.5% in 2017.

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. By 2017, Laos was reported to have reduced more than half of its tariffs to under 5%. Liberalization was greater again under ASEAN membership, which accounts for most of the country’s trade, with more than 70% of its tariffs being 0% and 25% of tariffs less than 5%. As in other countries, reforming non-tariff barriers is considered much more difficult, and remains a work in progress. Laos has nevertheless signed up to a modest streamlining of non-tariff barriers in line with its ASEAN commitments.

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. A considerable degree of political interference remains in the sector, for instance the financing of state-owned

Liberalization of
foreign trade



1

Banking system



1

enterprises by state-owned commercial banks (SOCBs). Although the share of SOCB's assets has fallen with the expansion of the foreign and domestic private banking sector, the state-owned sector remains 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 the private banking sector, there has been a pronounced expansion in foreign banks in the past two decades with new foreign branches entering the market, especially from China, Taiwan, Malaysia and Thailand. 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.

Credit growth continued to moderate in the review period, from over 20% in early 2017 to 5% in late 2018, despite a November 2017 reduction in the policy rate by the Bank of the Lao PDR. This easing was due to the moderation of economic activity, tightening of fiscal spending and increased effort by banks to screen customers and improve loan quality. Nevertheless, profitability (return on assets and return on equity) remained relatively low compared to regional peers. In addition, the non-performing loans ratio (NPL) edged up to 3.1% of total loans, relatively high for the region, with four of 14 banks audited in the first quarter of 2018 reporting NPLs in excess of 10%.

Laos has also developed a modest capital market. In January 2011, the Lao Securities Exchange opened for business in Vientiane with two listed companies, though few companies have been added since then and capitalization remains small by regional standards. In May 2013, Laos undertook its first bond issuance on the Thai bond market, amounting to \$50 million (about 0.5% of the GDP), in order to finance the general public investment program. Since then, it has undertaken several more bond issuances, often to support the budget.

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. After annual inflation hit 110% during the Asian Financial Crisis, the government embarked upon a macroeconomic stabilization program, and has maintained an effective monetary policy since then. Inflation was reduced to an average of 15% between 2000 and 2003 and has remained under 10% since 2005. Since falling to 0% in 2009, in the wake of the global financial crisis, annual inflation fluctuated between 4.0% and 7.6% but then fell to 1.3% in 2015 due to lower oil and commodity prices. The consumer price index (CPI) remained low during 2016 to 2017, prompting the Bank of the Lao PDR to reduce policy rates in November 2017. Core inflation duly increased from 0.9% in 2017 to 2.3% in 2018 due to increasing food and fuel prices. Headline inflation was slightly lower at 2.0% (2018). These upswings were in line with regional trends

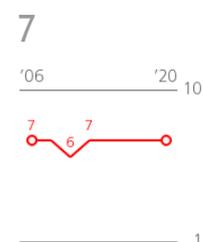
The central bank, the Bank of the Lao PDR, is controlled by the state. The bank oversees a managed floating exchange rate, aimed at maintaining nominal exchange rate stability against the dollar. The official exchange rate tracks the free market rate. Due to increasing pressure on the local currency, the Lao kip depreciated against the dollar (2%) and the Thai baht (7.8%) in 2018 and appears to have depreciated further since then. While domestic factors also played a part in this shift, this was partially attributable to a general strengthening of the dollar against emerging market currencies. The spread between the official and parallel market exchange rates narrowed to below 2.0% on average in 2018, below the annual spread of 2.5% in 2017.

Lao authorities are aware of the need for macroeconomic stability, but as in other areas of governance, politics takes precedence. This means that ultimately, decisions are taken not by the central bank, or even by the ministry of finance, but by the politburo, which has agreed to high-cost projects in recent years that have impacted the budget's bottom line.

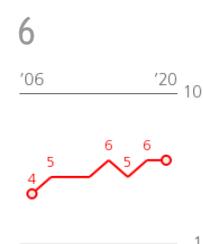
Institutionally, the government adopted a revised state budget law in December 2015, which provided greater budget oversight by the National Assembly and enhanced the authority of the ministry of finance in budget management.

As a result of these changes, the government's fiscal management over the review period consolidated earlier efforts to reign in expansionary spending. Results were nevertheless mixed. On the one hand, the government contained recurrent spending, especially on salaries, by limiting recruitment of civil servants in 2017. This helped to offset a 7% increase in the wage index, after a three-year freeze. On the other hand, these savings were offset by increased spending on public investment projects – especially hydropower projects, the main drain on state coffers in recent years – and enhanced efforts to clear arrears. As a proportion of the GDP, government

Monetary stability



Fiscal stability



expenditure fell from as high as 26.3% in 2013 to 20.5% in 2016, before settling at 21.4% in 2017 and 2018 (estimated). With government revenue increasing from 16.1% of the GDP in 2017 to 16.7% in 2018 (estimated), the fiscal deficit remained high compared to regional peers at 5.3% in 2017, but was expected to fall to 4.7% of the GDP in 2018.

This trajectory helped to slow the accumulation of public debt, but not at a sufficient rate to reverse the debt-to-GDP ratio. As a result of successive fiscal deficits in earlier years, public debt increased to 62% of the GDP in 2017, higher than regional and structural peers. With a relatively high public external debt ratio (82% of total public debt), debt sustainability is vulnerable to a sudden and significant depreciation of the Lao kip. In dollar terms, total external debt (public, publicly guaranteed and private) reached more than \$14 billion in 2016, an increase of over \$1 billion from the previous year.

Although the country's debt profile is more concessional than many of its peers, the proportion of less concessional lending has increased in recent years to finance equity investment in profit-oriented projects such as those in the power sector. The relatively high level of debt combined with the decreasing share of concessional borrowing has increased debt service payments, with interest payments increasing from 1.1% to 1.9% of the GDP between 2015 and 2018. This equates approximately to planned public expenditure in health and half the expenditure in education. As a result of increasing debt and debt service payments, the March 2018 debt sustainability analysis assessed Laos to be at high risk of debt distress, a deterioration from moderate. However, risks associated with less concessional lending are expected to be mitigated in coming years by increased revenue from the commissioning of power stations and energy exports.

Foreign exchange reserves decreased over the review period from almost \$990 million in December 2015 to \$812 million in October 2018. This level is estimated to cover around 1.1 months of imports of goods and services, half that of late 2015 (2.2 months). This is a lower level than Laos' regional and structural peers have. Reserves are expected to remain low due to debt repayments and structurally low export revenues in the non-resource sectors.

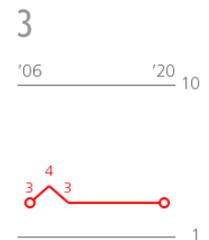
9 | Private Property

All land is formally owned by the state and can be expropriated for state purposes. A land-titling program has been underway in larger cities and towns and is slowly being extended into the countryside. False and disputed claims can in theory be resolved in a court of arbitration, but are more often settled through payment of bribes to relevant officials. Nevertheless, regulation of property use rights and transfers has been an area of focus for successive governments and according to the World Bank, property registration processes are (with an average of 28 days) considerably better than the average in East Asia and the Pacific (62 days).

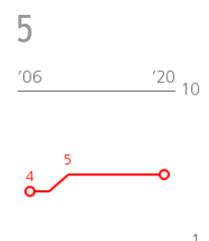
In rural areas, families possess user rights to agricultural land, which are transferable and heritable. Communities may also exercise traditional rights to non-agricultural land, including those ethnic minorities who practice shifting slash-and-burn farming. As foreign demand for agricultural concessions has increased, particularly since the land law was passed in 2003 and the turning land into capital (TLIC) strategy was adopted in 2006, authorities have often disregarded these traditional rights or paid insufficient compensation to those who have lost land or access to it. Despite various moratoriums on new concessions, rural land issues remain one of the principal areas of injustice and contestation in Laos today. While local resistance has occurred and the matter has been raised increasingly in the National Assembly, rural populations possess few avenues for redress, especially with the weak civil society sector being prevented from advocating on behalf of those affected. On the other hand, land management is one area of popular concern the Thongloun Sisoulith government has sought to address. In August 2017, the party 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. Then, in 2018, the government tabled a revised land law for review by the National Assembly, aiming to improve governance and transparency in this area.

Domestic and foreign-owned private companies are permitted to operate and are in theory protected by the enterprise law (amended 2013). However, in practice state interference can 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. Private enterprise has enhanced competition in sectors such as telecommunications and aviation. More generally, 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

Property rights



Private enterprise



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 141 in 2018 to 154 in 2019. Although Laos improved in some areas, including trading across borders and obtaining credit, it was the lowest ranked ASEAN country with the exception of Myanmar (171).

10 | Welfare Regime

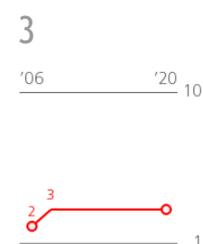
Laos has no comprehensive social security system to alleviate poverty and health insurance schemes cover only a small fraction of the population. The only aged or invalidity pensions are those provided by the ministry of labor and social welfare to veterans who fought on the revolutionary side in the civil war. Reducing poverty is a primary objective of government according to the latest national growth and poverty eradication strategy (2016-2020), but implementation of these strategies has been inconsistent. Poverty has been reduced significantly and increased state revenue is improving livelihoods via increased wages for civil servants and funding for social programs, but an effective social safety net is still a long way from being realized. Health spending is extremely low (0.9% of the GDP in 2014). Life expectancy at birth is improving gradually, with the figure rising from 62.3 years in 2004 to 67.6 in 2016. However, it remains lower than in countries like Cambodia (69.0) and Timor-Leste (68.9).

The Lao government has introduced measures to alleviate poverty in mountainous parts of the country, including a resettlement program, which is also driven by political and security concerns of the regime. Additional programs designed to improve living conditions for ethnic minorities are inadequate in scope and open to abuse by local officials. Only the small-scale networks of kinship, village, ethnicity, and patronage work effectively for providing any social safety net. Families of those who died in the Xe Pian Xe Namnoy dam collapse received one-off payments of \$10,000, but state disaster assistance of this kind is provided on a case-by-case basis.

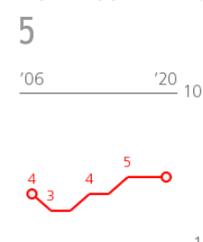
While women comprise 27.5% of the present National Assembly, this representation translates into limited power. The Lao women's union, one of the more important mass organizations of the ruling party, remains influential and well organized but there is just one woman (among 11 members) on the all-important LPRP politburo, and just seven (out of 69) on the party's central committee. In addition, women are severely underrepresented in second- or lower-level positions in the party-state, such as governor posts or mid- to high-level administrative positions. On the other hand, government policies are narrowing the gap between female and male literacy (79.4% compared to 90%, 2015 census) and access to education, and the female labor force is virtually half of the total (49.8%), one of the highest rates in the region.

Ethnic minority populations have poorer access to education than the ethnic Lao-Tai majority, a problem that is multiplied for girls from ethnic minorities. For example,

Social safety nets



Equal opportunity



Lao-Tai (ethnic majority) male students living in rural areas are four times more likely to have attended school than their male non-Lao-Tai counterparts, while Lao-Tai women are six times more likely to have attended schools than non-Lao-Tai women. 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. Those without such connections are at a disadvantage, no matter how talented they may be. In sum, equality of opportunity is at all levels of the political system constrained by the dependency on party membership, which is becoming more problematic as a cadre-led capitalism emerges.

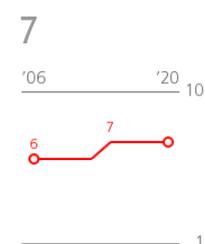
11 | Economic Performance

The economy in Laos has continued to perform well despite a less favorable global economic environment and severe national floods in 2018 (greatly exacerbated in Attapeu by the dam collapse). After strong and stable economic growth, averaging almost 8% per annum over the past decade, real GDP growth slipped marginally from 7.0% in 2016 to 6.9% in 2017, and an estimated 6.5% in 2018. Still, economic growth increased annual output to \$16.9 billion in 2017, up from \$14.4 billion two years earlier – and a mere \$4.2 billion in 2007. Meanwhile, per capita income (purchasing power parity) has more than doubled in the past decade, from \$3,317 in 2007 to \$7,023 in 2017.

As in past review periods, growth continues to be driven by robust industrial output, despite dropping marginally from 12.0% in 2017 to 9.6% in 2018 (estimated). With the performance of the mining sector weakening, the power sector remains the chief driver of industrial growth, growing by 30% in 2017 and another 15% in 2018 (estimated). The construction sector, supported by construction of the Lao section of the Kunming-Singapore railway, is also playing a key role in industrial expansion. Non-resource sectors, notably manufacturing (including electronic parts and components, a key focus of special economic zones), have also posted a strong performance in the review period. Inflation has remained low in the past two years, falling from 1.6% in 2016 to 0.9% in 2017, but appears to have turned upward again in 2018 (estimated 2.1%) due to rising oil prices.

A major driver of GDP growth has been foreign direct investment (FDI), particularly from Vietnam, Thailand and especially China, which is now the leading source of FDI (almost 50% of the total) due to the high import content of the railway project. Annual FDI fluctuates as a proportion of the GDP, dipping to 4.8% in 2017 from double that in 2015. Nevertheless, in the first three quarters of 2018, FDI flows grew 11.0% compared to the previous year, reaching \$1.1 billion.

Output strength



The current account deficit narrowed from 12% of the GDP in 2017 to 11% in 2018. This was driven by a narrowing trade balance, which fell from 9.9% of the GDP to 8.5% (estimated) in the same period. Less positively, the fiscal deficit deteriorated from 4.4% of the GDP in 2015 to 5.3% in 2017, due to lower tax revenues, higher foreign-financed capital spending, and government spending associated with flooding in 2018. However, the deficit was projected to narrow in the second half of 2018 due to improved tax revenue. Given sustained fiscal deficits, public debt remains high and has continued to grow, from 57.6% of the GDP in 2015 to 62.0% in 2017. According to the 2017 Labor Force Survey, wage jobs are thought to have increased gradually since 2010. However, no reliable statistics are available to account for unemployment rates, and the World Bank estimate of 0.7% (2017) is not plausible.

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. In July 2018, the country witnessed the devastating collapse of a saddle dam of the Xe Pian Xe Namnoy hydropower project, a joint venture of Korean, Lao, and Thai interests, under construction in Attapeu province. The collapse of the dam resulted in catastrophic flash flooding of downstream villages – in Cambodia as well as Laos – leaving thousands homeless and officially killing 42 people, with dozens more missing. While initial statements from the company and government blamed the breach on heavy rainfall associated with the tropical storm Son-Tinh, academic experts and activists pointed the finger at alleged cost-cutting, poor dam design and inadequate regulation by an overstretched bureaucracy, emphasizing that this was a man-made and not a natural disaster. Although the government commissioned an official report in the aftermath of the disaster, it has not been released at the time of writing. However, the government did concede that poor construction was a factor in the collapse.

There are many more dams throughout the country with highly deleterious impacts on local environments and livelihoods, including “model” projects funded with World Bank support. Today, many of the best known and most controversial hydropower construction projects are situated on the Mekong River. Despite controversies over the now near-complete Xayaburi Dam (north of Vientiane) and the Don Sahong Dam (situated less than two kilometers from the Cambodian border), work commenced on a third project, the Pak Beng Dam, upstream of Luang Prabang,

Environmental
policy

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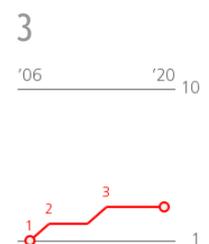
and plans were developed for a fourth, the Pak Lay Dam, downstream of the Xayaburi project. As in the case of earlier projects, the government's apparent lack of regard for formal consultation processes mandated by the Mekong Agreement (1995) attracted the condemnation of Laos' neighbors and environmental groups. Besides the high-profile Mekong dams, dozens of other projects throughout the country present a similar threat to local livelihoods and environments, despite flying under the radar of international observers.

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, in a bid to reduce rampant and widespread illegal wood shipments, one of the first steps of the current government of Thongloun Sisoulith was to issue a moratorium on the export of logs and timber. Seemingly reinforced by the dismissal of the Attapeu governor, Nam Viyaket, for illegal timber sales to Vietnam, this crackdown represented a marked shift from the past, when various levels of Lao government turned a blind eye to widespread smuggling practices. It was accompanied by a structural shift in the Lao economy away from timber exports.

Although it has made some 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 sits at 139 out of 189 on the U.N. education index (2017), above Cambodia (146) and Myanmar (148), but beneath other ASEAN countries. 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. Although statistics are not available, the government does not as a rule invest in research and development, although it does fund a number of research institutes that conduct policy-relevant research. Nevertheless, there is an underlying problem of a lack of investment.

Education attracts significant funds from foreign donors and public education spending increased to 4.2% of the GDP in 2014, up significantly from 2.8% in 2010. Recent increases in expenditure on education will however take time to have an effect. As a percentage of the budget, education expenditure increased slightly to 15.4% in 2014, but this is lower than before the global financial crisis (17.4% in 2007). 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 (still poorly-paid) teachers, meaning that funding for textbooks, equipment and teacher training remains very low.

Education policy /
R&D



Governance

I. Level of Difficulty

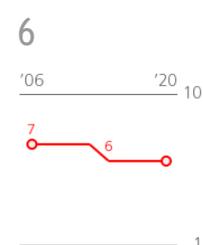
Historically, the greatest structural constraint on effective governance in Laos has been geography. Not only landlocked, the country is mountainous in the north and east, while waterfalls on the southern frontier make navigation down the Mekong River to Cambodia impossible. Infrastructure has been poorly developed, aggravating communication with all neighboring countries except Thailand, with which Laos shares a long border along the Mekong. In addition, serious flooding has occurred regularly in recent years, most recently in 2018 (when nationwide floods were greatly exacerbated in Attapeu province by the Xe Pian Xe Namnoy saddle dam collapse).

Despite these constraints, in the past two decades the Asian Development Bank's Greater Mekong Subregion scheme, within which Laos is strategically situated, has greatly helped to improve regional integration. Laos now promotes itself as "land-linked" rather than landlocked. Major roads crisscross the country, linking Thailand and Vietnam in an east-west direction, and China and Thailand along a north-south corridor. An ever-increasing number of bridges span or are planned for the Mekong River's Lao reaches, including the first Lao-Myanmar Friendship Bridge, which opened in May 2015. Navigation on the river itself has been improved and, after several years of delays, construction of the Laos-China railway, part of a planned Kunming-Singapore network, is nearing 50% completion.

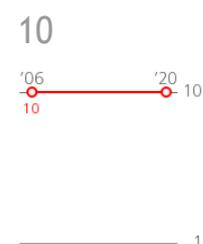
Another significant constraint is the low level of human resource development. Educational levels and literacy rates are well below ASEAN averages. Despite significant reductions over time, poverty rates remain high, especially in rural areas, with 58.7% of the population living on or less than \$3.20 a day (2011 purchasing power parity), or 23% at the national poverty line. HIV/AIDS infection rates, though low by international standards, remain a concern, as do malaria and tuberculosis.

Laos's civil society traditions are very weak, with a regime committed to making the LPRP 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 2009 decree on associations, which permitted the formation of independent social organizations, appeared to promise a new era of improved cooperation between civil society and government.

Structural
constraints



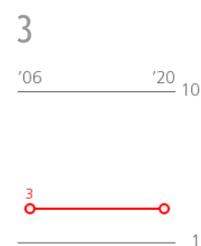
Civil society
traditions



However, these hopes were dashed in a pronounced crackdown in late 2012, which reinforced the requirement (stated in the decree) that associations adopt the government's strategy for national development, which effectively proscribed action independent of the state. Since then restrictive regulations and government supervision under a revised decree (2017) have continued to hinder the organizational efforts of civil society.

Despite inherited divisions along geographical and ethnic lines, there are few ethnic, religious or social conflicts in Laos. This may to some extent be due to the control exercised by the ruling party, and the officially required rhetoric of consensus that dominates the public sphere. Small-scale conflicts over resource usage, especially compensation for acquired land, continue to occur, but these incidents remain isolated and unorganized in the face of the party's intolerance of public criticism. 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 member of the politburo. Recent incidents of armed violence in Xaysomboun province (near the former Hmong insurgency) appear to be unrelated, and instead are aimed at Chinese nationals. This is of some concern given the increasing level of Chinese investment and business activity in many parts of Laos. The government bans all Christian and other religious missionary activity in Laos, while supporting Buddhism as central to Lao cultural identity. The small Christian community is equally divided between Catholics (ethnic Lao) and Evangelical Protestants (ethnic minorities). Both groups maintain a low profile. The Lao front for national development (formerly construction), the party's front organization, mediates the limited social conflict that does exist.

Conflict intensity



II. Governance Performance

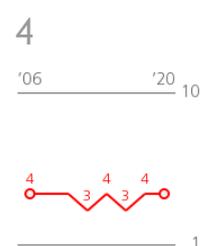
14 | Steering Capability

The long-term aims of the LPRP politburo and central committee are, first, preserving the current one-party system and the LPRP's monopoly on power, and second, to develop the economy and raise living standards. To these ends, the 8th five-year national socioeconomic development plan (NSED) 2016 to 2020, adopted by the tenth party congress in 2016, lays out strategic objectives such as reducing poverty, lifting the nation above least-developed country (LDC) status by 2020, and now that this target is likely to be achieved (albeit slightly delayed), the Vision 2030 goal of becoming an upper middle-income country by 2030. While new targets are introduced, these priorities – political and economic – represent no significant change from earlier strategic plans and there is no indication that they will change in the future.

Question

Score

Prioritization



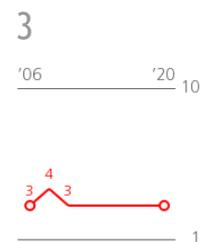
The government is genuine in wanting to develop the economy and reduce poverty, a key part of its strategic long-term priority of graduating from least-developed country status by 2020 (deferred in the 2018 review to 2024). Economic development strengthens the position of the party, but if party leaders believe political and economic priorities to be in conflict, politics takes precedence, for instance in the reflexive suspicion directed at the civil society sector. 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 aims to strengthen central party control, especially over the exploitation of natural resources.

The lack of representative democracy enables the leadership to pursue unpopular development strategies that boost the economy. But the lack of democratic accountability means the resulting policies and strategies – such as turning land into capital (TLIC) – can have disastrous consequences for rural livelihoods. Likewise, the lack of checks and balances means that strategic goals are frequently subjugated to rent-seeking and other corrupt practices. Encouragingly, the new government of Thongloun Sisoulith has appeared more intent than its predecessors on addressing corruption, government profligacy and land management issues related to concessionary development. But the primary aim of this responsiveness would appear to be shoring up LPRP legitimacy rather than social justice per se. In particular, tackling corruption in a 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.

Because the party leadership avoids reforms it believes might undermine its own political interests, 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. The government has continually restated its commitment to these projects in spite of significant social, environmental, and in some cases economic concerns. As well as hydropower dams, these projects include the construction, despite serious economic concerns, of an ambitious and expensive railway line connecting Vientiane to the southwest Chinese city of Kunming. Part of China's Belt and Road initiative, construction on this project reached 40% completion during the review period. On the other hand, reforms promoted by international donors, such as those aimed at strengthening the rule of law, environmental management, or civil society, can often be left only partially implemented for fear they might weaken the party, its development strategy, or the political position of powerful individuals.

In addition, the effective implementation of endorsed policies, such as poverty reduction and improved bureaucratic efficiency, has been undermined by high levels

Implementation



of corruption and poor law enforcement. While the new government's rhetoric and actions aimed at reducing budgetary waste and corruption have represented a welcome recognition of the effect these vices can have in undermining effective implementation, more time and political will is required, especially 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 and forms a major part of the most recent NSEDP was designed in part to strengthen and clarify center-province relations, but again the challenges remain significant.

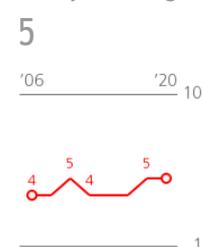
Despite the increasing responsiveness of some leaders, the LPRP's commitment to maintaining the political status quo remains the single greatest barrier to policy learning. The leadership is not inflexible and has developed a better understanding of the economy's market features, the impact of global economic forces and the motives of international organizations pressing for reform. However, decisions are always made (or not made) for intraparty reasons such as the politics of party power and patronage that are often obscure to external observers. Such as it occurs, policy learning in the political sphere aims to provide predictability for investors and ensuring the ongoing sustainability of party rule.

As for economic policy, the government in Laos sometimes accepts advice from international institutions such as the IMF, World Bank and Asian Development Bank (ADB). Since 2013, for example, the party leadership has made efforts to reduce spending after the IMF expressed concern at an overheating economy. Likewise, in 2015 the government passed a new state budget law aimed at improving oversight of budgetary processes. In 2017, it revised the Bank of Lao PDR law to provide risk-based supervision of the banking sector, and in 2018, it implemented e-tax systems to reduce tax evasion and improve government revenue. On other occasions, however, the government follows external advice only reluctantly, especially as a condition of receiving aid. 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.

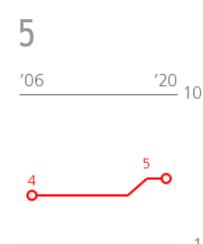
15 | Resource Efficiency

The government fails to make full use of the human, financial and organizational resources available to it. Lao political culture revolves around the competitive interests of powerful individuals, their families and their networks of political clients. At its core lies the benefits and opportunities a powerful individual can provide, by way of employment and other economic advantages. As a result, government bureaucracy is highly politicized and subject to rent-seeking. Recruiting procedures are neither open, transparent nor competitive, to an extent where the most qualified and capable candidates are likely to be overlooked. Laos has a slowly increasing pool

Policy learning



Efficient use of assets



of foreign-educated, technically competent administrative personnel, but they are typically subject to political imperatives and 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 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, the latest decentralization initiative, which aims paradoxically to establish greater central control over resource revenues. Despite this program, there are few prospects of reforms that would make public administration more transparent or effective, at least in the immediate term.

State oversight of the budget should improve with the revision of the state budget law, passed in 2015 and implemented in 2017. The revised law includes several measures to improve public financial management, such as expanding the role of the National Assembly in budget oversight and enhancing the authority of the ministry of finance in budget management. There is also a revised method for budget allocation, which is expected to improve budget efficiency. These measures, which broadly aim to make the bureaucracy more accountable, represent a substantive response to the blowout in government spending in 2013. Nevertheless, deficits have remained high compared to regional and structural peers, and public debt remains an area of risk for the government. In the banking sector, a revised Bank of Lao PDR Law is aimed at improving supervision on the basis of risk, and this should strengthen the sector and ultimately help to improve resource use.

Despite efforts to promote coherent policy through the five-yearly national socioeconomic development plans, 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. Except where central party apparatus intervenes, 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 discounted. 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.

Policy
coordination

4

'06 '20 10



Corruption is ubiquitous in Laos, such that the government generally fails to contain it. The problem is exacerbated by the example set by senior party leaders, and by foreign investors' willingness to buy political support and pay off officials.

Since 2016 the party and the new government of Thongloun Sisoulith has increased its anti-corruption rhetoric, suggesting the potential adoption of a less tolerant approach, 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 highest and most profitable. A presidential anti-corruption commission did virtually nothing to improve matters, and the passing of an anti-corruption law in 2005 had minimal effect. The party-controlled media frequently runs articles condemning corruption, but refrains from naming offenders. A state inspection law passed in June 2007 was supposed to strengthen the state inspection authority, which is charged with policing the public service to ensure officials are not using their positions for personal gain (which many do). The government also established an audit office, but its location within the ministry of finance inhibited its ability to function independently. More recent initiatives such as an enhanced assets register appeared to have made little difference. In short, the government's integrity mechanisms have not been genuinely independent of the party and have thus failed to perform their function. Low-level officials have faced criminal charges and a small number of higher-level officials have been removed from office due to corruption, including two provincial governors in the review period. However, a general preference for face-saving means there have been no high-profile prosecutions of senior officials.

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 never published, officeholders are not held to account, and the activities of the central committee are not publicized. The problem of corruption has been frequently raised in the National Assembly, but again, no one has disclosed any names.

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. After the 2016 party congress, a report published by the anti-corruption authority and state inspection commission announced that fourteen (unnamed) party units at various levels had been warned, criticized and dissolved due to corruption. The report disclosed embezzlement activities totaling almost \$600 million. Similar reports have followed in the past two years, adding to the impression that the regime is acting on these issues. In addition, the regime's chief anti-corruption official, Bounthong Chitmany, has amassed considerable power as chief of the LPRP inspection commission, state inspection commission and anti-corruption authority. But it is not possible to say whether these developments have done anything to contain

Anti-corruption
policy

2

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corruption; unofficial government sources in fact suggested in 2017 that graft had increased.

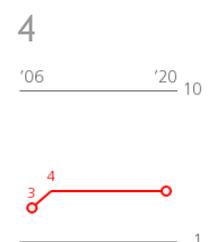
These developments are yet to garner any serious response from Laos' development partners. The principal interest groups and economic actors urging anti-corruption reforms on the Lao government are international lending agencies (IMF, World Bank, ADB), foreign governments with substantial aid programs, and foreign NGOs. Of these, the first have been most insistent in urging reform, and have had some success by attaching conditions to large loans. Japan is the largest aid donor but is reluctant to put pressure on the Lao government. Vietnam and China have much greater influence, but dealings with these countries are the least transparent of all.

16 | Consensus-Building

Although “consensus” and “democracy” are key rhetorical values of the LPRP regime, the stifling of dissent hinders an evaluation of the existence, or the 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 next door, whose political crises have been displayed over Thai television (which most Lao watch). More substantially, 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, combining many elements of market-based economy 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 – recently deferred to 2024 – which has dominated all else in 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 increase 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, increased pressure on civil society organizations, especially those questioning the impact of the market economy on the environment and rural livelihoods, 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



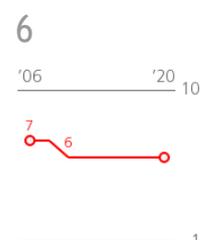
The few reformers existing in Laos – inside or outside the party – have little or no control over the anti-democratic actors that make up the one-party system. Those who do express their belief in reform are relieved of their positions, if not worse. Actors of any kind that advocate greater democratization are in a small minority.

Anti-democratic actors



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. Compromise is common among the Lao, who prefer to avoid face-to-face conflict. The democratic centralism that operates within the LPRP 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.

Cleavage / conflict management

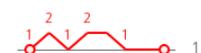


The LPRP does not encourage civic engagement or solidarity among Lao citizens, unless it is in support of the party and its policies. This was demonstrated by the revision of the decree on associations in 2017, which added considerable detail to the already onerous regulations and prohibitions faced by associations. Non-profit associations (NPAs) must apply for registration, meaning the government can reject applications, and those who do not quietly submit to the official line – for instance over land disputes – have been intimidated. In addition, the revised decree required all sources of foreign funding to be approved by the government, effectively regulating the relations NPAs could nurture with international partners.

Civil society participation



Unlike formally autonomous NPAs, the party's own mass organizations, such as the Lao women's union and youth union, are involved in the policy process by channeling information between members and the leadership. But these organizations are part of the party apparatus and thus fail to meet the provided definition of civil society actors. While some professional associations exist, such as the Lao bar association and the Lao national chamber of commerce and industry, these also remain under the formal or de facto supervision of the party. No political debate is permitted except within the party itself. Although a number of interest groups maintain online communities, these too are monitored and regulations have been established to proscribe online expression of anti-government sentiments.



The LPRP appears to be making some effort to reconcile with overseas Lao communities that fled the country after the 1975 revolution, by encouraging them to return and invest in Laos and, symbolically, by 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.

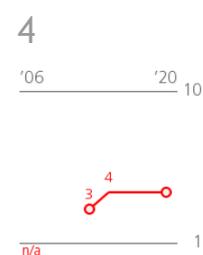
The government did make an effort to bring about reconciliation with those Hmong and other ethnic minority populations who fought on the Royal Lao side during the “30-year struggle” (1945-1975), offering amnesty to all who surrendered. However, those who did not accept this offer were subject to continuing 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.

17 | International Cooperation

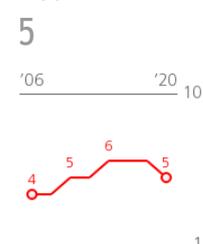
Laos has been remarkably successful in attracting foreign aid from across the ideological spectrum. In order to do so, it includes development partners in triennial roundtable meetings (RTM), which help to develop and monitor its five-year NSEDPs. While the government presents itself as willing to consider 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 highest-profile projects in recent years, such as the Laos-China railway 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. In the wake of the collapse of the Korean-funded Xe Pian Xe Namnoy saddle dam in Attapeu in 2018, the

Reconciliation



Effective use of support



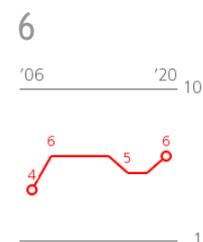
government undertook to reassess its hydropower dam-building strategy, which depends heavily on foreign capital, but this review is either incomplete or its results have not been released.

Since the latter half of the 2000s, the Lao government has generally been considered a reliable partner by international organizations, NGOs and bilateral partners. In the period 2013 to 2014, the country faced uncharacteristic scrutiny over its inability – or unwillingness – to mount a credible investigation of the disappearance of Sombath Somphone, and since then, the local civil society sector has retreated and the government has tightened its oversight of international NGOs. Nevertheless, this episode did not affect aid flows, which are sustained 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 Laotian government does not seem to feel constrained in a way that would require fundamental policy changes.

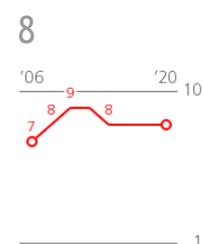
Laos joined ASEAN in 1997 and places a premium on its membership. Having long sought to balance cooperation with and autonomy from its larger neighbors, Laos appreciates the ASEAN principle of non-interference and is more comfortable cooperating with other ASEAN states than with Western countries. Together with other ASEAN members, it promulgated the ASEAN economic community in late 2015, though Laos and other less developed members were granted more lenient terms for the reduction of tariffs. In addition, it assumed the revolving chair of ASEAN in 2016, its second time in the role (its first was in 2005). Although the government attracted negative press for canceling the ASEAN people's forum (a CSO event usually held on the sidelines of ASEAN) in the same year, it was generally praised for a competent performance in the chair. In particular, the government managed to draft a statement on the South China Sea that was acceptable to claimant nations, including traditional ally Vietnam and China itself.

Laos is also an enthusiastic member of the ADB's Greater Mekong Subregion (GMS) scheme, which includes Yunnan province and Guangxi autonomous region in China

Credibility



Regional cooperation



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 landlocked to “land-linked.” While new highways such as the R3A, which links Yunnan to northern Thailand via northwestern Laos, have been criticized for bypassing Laos and having deleterious effects on local populations, the government’s enthusiasm for such infrastructure projects remains strong. In 2015, Laos joined with its mainland Southeast Asian neighbors in the China-driven Lancang-Mekong Cooperation (LMC). Like the GMS, China aims to develop regional connectivity, but in its own way so as to reinforce Chinese regional leadership. Laos attended the first two LMC Summits in 2016 in China and 2018 in Cambodia.

Despite Laos’s enthusiasm for regional integration, the country continues to retain its closest relations with its “fraternal” communist ally, Vietnam. But as the LMC shows, it has also grown progressively closer to China, which not only shares (like Vietnam) a Marxist-Leninist political system, but seeks to cooperate with Laos and other countries in the region as part of Xi Jinping’s signature Belt and Road Initiative (BRI) strategy. In late 2015, China launched LaoSat-1, Laos’s first communications satellite; a year later, representatives from both countries broke ground on the Laos-China railway, which forms part of the Kunming-Singapore railway. At the end of 2018, construction of the railway was reportedly over 40% complete, with 90% of bridges, tunnels and ground beds due for completion by the end of 2019. While press reports sometimes speculate over the relative influence of Vietnam and China in Laos – including after the most recent party congress in January 2016 – the LPRP continues to balance the two relationships, in recognition that both are of critical importance.

Laos has however come into disagreement in recent years with fellow members of the Mekong River Commission, established in 1995 to manage the lower basin. Since 2010, the government has pressed ahead with plans to develop a number of controversial hydropower dams on the Mekong River, despite protests from Cambodia, Thailand and Vietnam that it failed to observe procedures for notification, prior consultation and agreement (PNPCA), as mandated by the Mekong Agreement of 1995. The first of the dams, the Xayaburi Dam (north on Vientiane), is now nearing completion (estimated in 2019) while the second, the Don Sahong Dam (just north of the border with Cambodia), is under construction. More recently, in 2017 and 2018, the government confirmed plans to proceed with construction of the third and fourth projects, the Pak Beng Dam upstream from Luang Prabang and the Pak Lay Dam downstream from the Xayaburi project. In all of these cases, Laos’s willingness to act unilaterally on the Mekong, despite the profound regional implications of doing so, strikes a vivid contrast with the country’s studious membership in ASEAN, the GMS, and other regional forums.

Strategic Outlook

The Lao People Revolutionary Party has been well served by its model of state-led, market-oriented transition under one-party rule, overseeing one of the region's most stable autocracies and fastest-growing economies (albeit from a low base). In so doing, it has developed positive relationships with ASEAN and other Asian powers, including China, although the dynamics of the latter relationship remains complex in Laos as elsewhere. Laos also retains favorable relations with Western partners, despite occasional bumps in the road. Nevertheless, two familiar and fundamental challenges remain: a political system that concentrates power in a party subject to little transparency and accountability; and a highly inequitable, natural resource-intensive economy that can have an appalling impact on rural and remote communities.

The government has shown during the review period that it is aware of the challenges it faces and is intent on addressing some of these. As the Xe Pian Xe Namnoy dam collapse exemplified, however, piecemeal responses aimed at shoring up the LPRP's legitimacy can only achieve so much. More fundamentally, the party's long-term interests lie in identifying, accepting, and addressing the substantive issues that lie behind threats to party legitimacy.

The first is the informality, corruption and capriciousness that can characterize governance in Laos. Despite the LPRP's undiminished enthusiasm for passing new laws and revising existing ones, a renewed focus on implementation is required to turn intent into reality. To be clear, this focus should not be seen as a proxy for weakening one-party rule; securing the central political role of the LPRP is a core objective of the party's cherished legal sector master plan and is non-negotiable from the LPRP's perspective. Rather, addressing the challenge of implementation should be aimed at improving regulatory oversight, enhancing bureaucratic efficiency, and ultimately delivering social justice.

The second underlying issue is inequality. Addressing this requires, on one level, diversification of the party's development strategy, and enhanced prioritization of education to develop skills for emerging industries in the manufacturing and services sectors. On another level, the government must address the social and environmental impact of hydropower dams, industrial plantations, and other resource projects funded by foreign firms on lands conceded by the state.

The prospect for such changes may seem fanciful to international organizations, Western donors and local civil society, who have long expressed such concerns to no avail. In particular, local civil society has been severely oppressed for simple advocacy deemed to be directed against state policies. More optimistically, however, the Xe Pian Xe Namnoy disaster may provide the opportunity and impetus for a new compact between the party-state and its domestic and international partners. There are tentative signs of this possibility with the government undertaking to review its hydropower strategy in the wake of the tragedy, though the promised report is yet to be released.

Domestic and international stakeholders are familiar with the challenging context and structural limits in which they work. The best chance of achieving even modest gains is by stressing areas of shared concern, such as improving education, diversifying the economy, and working toward more orderly governance and regulation. Despite their different emphases and political philosophical traditions, concern with such issues is unanimous among the government and its partners, including its Asian partners. Although this advice may be discomfiting for some observers, the best chances of success will come through cooperating with the LPRP on its own terms, rather than by lecturing it.

Certainly, the LPRP would be assisted in pursuing its shared goals if it permitted a more active and independent local civil society. But this remains highly unlikely, as it would require a degree of openness and cooperation to which the party-state is averse and unaccustomed. In this respect, the greatest ongoing barrier to transformation – the party’s insistence on maintaining its monopoly on political power and autonomy – is likely to remain insurmountable.

International agencies have more room to move, however, and should continue to advocate sensitively on behalf of local civil society. More generally, international agencies and NGOs should urge the government to uphold its own constitution and laws and provide technical assistance in these areas. They should also reinforce the benefits of cooperating with democratic countries, and contrast this against the consequences of poorly regulated resource-intensive development, underwritten by unscrupulous foreign investors. Despite the formidable challenge and geopolitical shifts in recent years, the Lao government continues to derive domestic and international legitimacy from its relations with the West, bestowing development partners with a significant degree of influence.