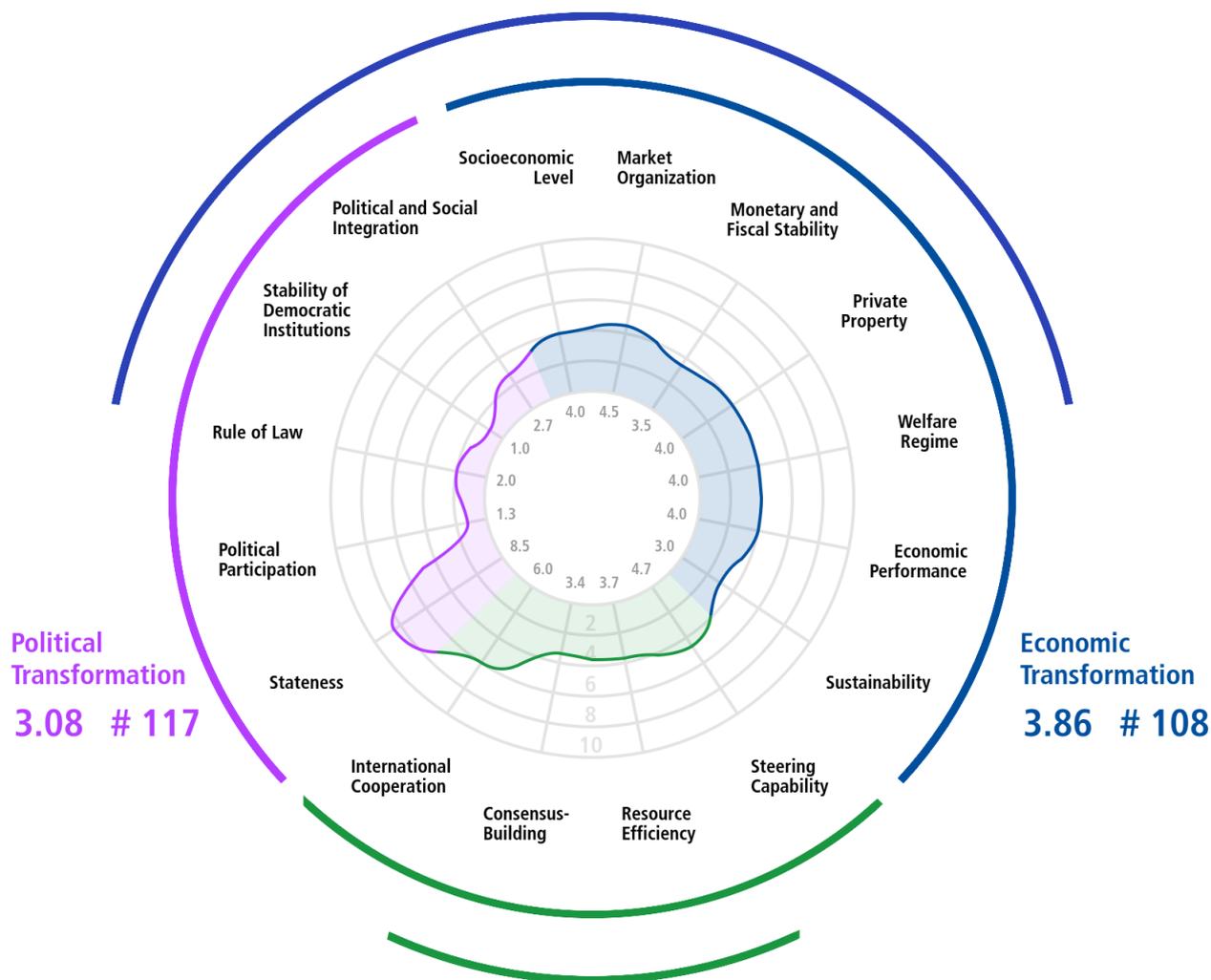


Laos

Status Index

3.47 # 115

on 1-10 scale out of 137



Governance Index

4.08 # 91

on 1-10 scale out of 137

This report is part of the **Bertelsmann Stiftung's Transformation Index (BTI) 2024**. It covers the period from February 1, 2021 to January 31, 2023. 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 2024 Country Report – Laos. Gütersloh: Bertelsmann Stiftung, 2024.

This work is licensed under a [Creative Commons Attribution 4.0 International License](https://creativecommons.org/licenses/by/4.0/).

Contact

Bertelsmann Stiftung
Carl-Bertelsmann-Strasse 256
33111 Gütersloh
Germany

Sabine Donner

Phone +49 5241 81 81501
sabine.donner@bertelsmann-stiftung.de

Hauke Hartmann

Phone +49 5241 81 81389
hauke.hartmann@bertelsmann-stiftung.de

Sabine Steinkamp

Phone +49 5241 81 81507
sabine.steinkamp@bertelsmann-stiftung.de

Key Indicators

Population	M	7.5	HDI	0.607	GDP p.c., PPP \$	9384
Pop. growth ¹	% p.a.	1.4	HDI rank of 189	140	Gini Index	38.8
Life expectancy	years	68.1	UN Education Index	0.461	Poverty ³	% 32.5
Urban population	%	37.6	Gender inequality ²	0.478	Aid per capita \$	76.7

Sources (as of December 2023): The World Bank, World Development Indicators | UNDP, Human Development Report 2021-22. Footnotes: (1) Average annual growth rate. (2) Gender Inequality Index (GII). (3) Percentage of population living on less than \$3.65 a day at 2017 international prices.

Executive Summary

Laos experienced severe macroeconomic shocks during the past two years. The COVID-19 pandemic induced an economic downturn with a pronounced drop in the tourism sector, disruption to supply chains and manufacturing, and reductions in migrant worker remittances. The Lao economy was then severely affected by inflation, currency depreciation, and a debt crisis. The beginning of 2023 saw small signs of economic recovery, but vulnerabilities remain. The COVID-19 vaccination campaign yielded satisfying results, especially given the special challenges posed by Laos' terrain and infrastructure. In March 2022, the country eased travel restrictions, thus opening again a key channel of foreign currency: tourism. In 2022, the majority of businesses resumed operations, but the economy was still feeling the brunt of economic downturn and rising inflation.

Russia's invasion of Ukraine resulted in an increase in global commodity prices, which caused rising food and transportation prices in Laos. By October 2022, headline inflation in Laos had reached 37%, the highest in the region. At the same time, the value of the Lao currency depreciated, experiencing a 68% loss against the U.S. dollar. The prices of fuel and fertilizers rose steeply, putting a significant strain on the rural population, many of whom had previously only experienced minor effects from the pandemic. Throughout 2022, both urban and rural areas had to endure long queues lasting hours to obtain fuel, with fuel stations frequently running out of supplies. The fuel crisis worsened the debt crisis that had already been set in motion by the pandemic.

One underlying cause of the crisis over debt servicing and critically low foreign reserves was previous overborrowing for as-yet unproductive hydropower assets. The debt crisis pushed the country to the brink of default, only being avoided by debt deferrals and other agreements, mainly with China.

These multiple shocks caused a considerable setback. The government responded to the economic downturn with increased natural resource exploitation, compromising sustainable development, biodiversity, and environmental protection. Moves toward economic reforms and the implementation of “rule of law” principles continued to be touted publicly but were slow to materialize.

The replacement of Prime Minister Phankham Viphavanh with Deputy Prime Minister Sonexay Siphandone – an unprecedented move in the history of the Lao People’s Revolutionary Party (LPRP) – suggests a leadership crisis in Laos. Phankham had faced pressure over his poor crisis management and involvement in several scandals, which led to his resignation in December 2022, which was more or less voluntary. However, the new prime minister, Sonexay Siphandone, a member of a revolutionary family known for its recent association with systemic corruption, clearly embodies the continuity of LPRP rule and the political status quo.

History and Characteristics of Transformation

The Lao People’s Revolutionary Party (LPRP) came to power in 1975 in a nation devastated by the environmental, emotional, social, political, and economic toll of a decades-long civil war ensnared in the Second Indochina War. The new regime, a Marxist-Leninist system modeled on that of the Democratic Republic of Vietnam, faced a daunting series of tasks, including unifying a divided population, rebuilding after one of the most intensive bombing campaigns ever perpetrated, extending state infrastructure to remote and mountainous regions, and securing subsistence under the punitive economic sanctions that followed their rise to power. Despite these early challenges, the LPRP achieved important early wins, including dramatic improvements in literacy and the effective cessation of hostilities in their first decades in power. They also negotiated and legislated a constitution in 1991 that ushered in a wide range of legal reforms.

Upon assuming power, the LPRP extended agricultural collectives. However, throughout the 1980s, the party shifted toward endorsing a “multi-sectoral” or hybrid economy, which is defined as a “government-regulated market economy.” The party still officially maintains socialism as an eventual goal. Restrictions on internal trade were lifted, and a free market was introduced for agricultural products. The government also liberalized international trade and pursued foreign investment. Similar to China and Vietnam, this transition occurred without any accompanying political liberalization. Various supportive measures were implemented over the following decade, including the removal of microeconomic constraints that hindered private production and legislation to foster foreign direct investment (FDI), encompassing a legal framework for commercial, trade, and labor laws. The government also placed greater focus on macroeconomic stability and privatized most state-owned enterprises (SOEs), with the exception of approximately 20 designated as “strategic.” Simultaneously, the state maintained a central coordinating role through what eventually became the Ministry of Planning and Investment.

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

Over time, the LPRP strategy of balancing market and state-led approaches has become increasingly formalized through the passage of legislation as it seeks to implement the legal sector master plan (2009), the aim of which is to make Laos a “rule-of-law state.” With a steady increase in investment, especially in hydropower, mining, commercial agriculture, and tourism, economic growth surged by an average of almost 8% per annum between 2005 and 2015. The global financial crisis of 2008/2009 reduced the quantity of FDI originating from the West, but this was soon replaced by increased investment from Asian nations, especially Thailand, China, and Vietnam. Annual GDP growth remained robust until 2019. Not untypically for transitional economies, rapid growth came at the cost of rising inequality, but this was exacerbated in the case of Laos by the resource-intensive nature of growth. In addition, the large-scale granting of state land concessions for mining, hydropower, and commercial agricultural development resulted in the widespread dispossession of farmers’ land and communal forests. This period of increasing prosperity also coincided with a growing political culture of corruption.

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. Threats formerly posed by Hmong insurgents and other opponents of the regime were neutralized many years ago. Any public protest against large-scale development projects such as the new railroad or hydropower dams have been nipped in the bud by the state authorities. In remote and mountainous border areas, organized drug trafficking and wildlife trade by transnationally operating gangs remain largely beyond the control of the Lao authorities. Another exception is the widespread belief that there are other forms of violence, such as the weaponry of the occult. This form of power is often believed to be out of reach of the state. Many people in Laos, including especially police and military men, are seriously afraid of it.

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

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

Question
Score

Monopoly on the
use of force

8



1

State identity

9



1

Laos is a Marxist-Leninist state firmly anchored in secular governance. Even though Buddhism is considered the state religion (and elements of Buddhist culture constitute key pillars of the national cultural heritage in Laos), religion has no noteworthy influence on legal order or political institutions. However, the official endorsement of a Lao Buddhist cultural hegemony implies discrimination against non-Buddhist groups such as Christian and animist communities.

The constitution adopted in 1991 appoints the state as the protector of all cultures in Laos but also tasks it with eliminating any form of “negative” culture. While the constitution officially enshrines religious freedom, non-Buddhist proselytism is closely surveilled, and those converting to Christianity (usually ethnic minorities) are occasionally persecuted. However, this is motivated more by fear of foreign (Western) influence than by religious dogma.

The mountainous topography of Laos has historically presented a challenge to the state’s jurisdiction, the provision of basic services, transportation and communication. Against this background and working from a low base, the LPRP regime has steadily improved access to services, partly through its policy of resettling villages to create “focal zones” with better access to services. The LPRP has also pursued a strategy of asking the public to fulfill unpaid roles in the local administration, such as village-level tax collecting, health volunteering, and assisting the operations of the party’s mass organizations. In this way, basic administration is simultaneously limited but also extremely widespread. It is very common for adults to have some experience being an official in one office or another. People often aspire to paid jobs (for themselves or for their children) in district-, provincial- and national-level administrations. However, jobs are allocated on a “quota” basis; new job opportunities are severely limited, especially with the government under pressure to reduce public spending. As a result, many aspirational young people end up working as “volunteers” for the administration, receiving no salary. This can continue for years and contributes to low capacity in government administration.

At the national level, access to sanitation and water sources has increased markedly over the past decade. Access to safely managed sanitation has improved from 46.1% in 2011 to 61.4% in 2020. Access to basic sanitation was 79.5% in 2020. Basic access to water sources increased to 85.2% in 2020 (from 69.8% in 2011). Countrywide electrification is a success story, reaching 100% coverage in 2020 (from 94% in 2017; in 1995, only 15% of Lao households had access to electricity). Health care and education have improved as well, albeit with considerable setbacks due to the COVID-19 pandemic, especially in rural areas.

Pandemic-induced restrictions and the economic crisis negatively affected a state bureaucracy that was already suffering from a lack of resources, transparency, and capacity. The same is true for infrastructure. With resources channeled toward the Laos-China railway linking Vientiane with Kunming via Luang Prabang, many important overland roads fell into disrepair over the past two years, limiting rural access to key services.

No interference of religious dogmas

10



1

Basic administration

7



1

In addition, focal zones have in many cases caused development-induced poverty or hardship as people are relocated away from their fields, established homes and livelihoods in return for services that often remain substandard. Services are sometimes provided in rural and remote areas through local levies. Compensation for loss of land is often delayed or inadequate.

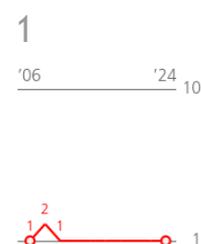
2 | Political Participation

Elections take place at national, provincial and village levels for the National Assembly, provincial people’s councils, and village administration, respectively. Elections in Laos generally are not designed to meet the standards expected in a multiparty democracy. Instead, they are designed to meet the standards of a “people’s democracy,” where a single party is expected to formulate a policy that is scientifically “correct” in the sense of accurately analyzing and responding to real situations in a way that advances the interests of the working class (more commonly termed “the people” in Laos). Multiparty democracy is rejected on the grounds that it would lead to different parties representing different classes that would by definition always be in conflict with one another, thereby subordinating some classes to others and factionalizing politics and society. Lao elections are designed to allow popular participation and debate without factionalism or lasting divisions. Unity is of prime importance.

In the 2021 election of the National Assembly, the ruling Lao People’s Revolutionary Party won 158 of the body’s 164 seats (224 candidates), with the remaining seats allocated to carefully vetted independents. The high voter turnout (98%) is exemplary for a socialist country and primarily the result of mobilization through the mass organizations that are directed by the party-state.

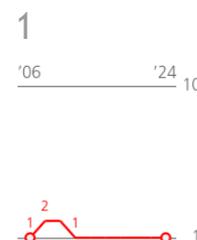
National Assembly elections are held every five years, with international observers not permitted to monitor them. In March 2021, the newly elected National Assembly named Secretary-General Thongloun Sisoulith as the new state president and Phankham Viphavanh as the new prime minister. Less than two years later, on December 30, 2022, Phankham Viphavanh resigned for alleged health reasons. Many observers identified his poor crisis management and loss of trust within the LPRP as primary factors in his resignation. Deputy Prime Minister Sonexay Siphandone – son of former LPRP strongman Khamtay Siphandone – was elected by the National Assembly as the new prime minister, with an overwhelming majority of 149 out of 151 votes, suggesting that his “election” was predetermined by the LPRP.

Free and fair elections



The LPRP effectively has veto power over any political question in Laos. The party has been very effective in retaining the power to govern. Sonexay Siphandone represents the continuity of the party-state apparatus. So too does his sister Viengthong, who presides over the Lao Supreme Court, as well as the president of the National Assembly, Saysomphone Phomvihane, son of long-term secretary-general and hero of the Lao revolution, Kaysone Phomvihane. Carefully observing the recent unrest in Burma, Thailand, and China, and the internal struggles of the Vietnamese party-state, the LPRP's focus is on preserving unity and solidarity.

Effective power to govern



The LPRP has control or oversight over all political institutions, including the executive and the National Assembly, the politburo, the central committee and the military. There is a strong overlap – usually familial – between business interests and party and government members. It is important to note that the LPRP understands itself as a democratic institution; party Congresses feature much discussion and deliberation, as well as voting. The party believes that it represents the true interests of all people in Laos, including nonmembers.

People in Laos have a right to political assembly and are even required to participate in political activities (such as village-level meetings) to a degree much more pronounced than in multiparty democracies. However, all political activity and assembly must take place within the structure and goals set by the LPRP; there is no politics outside the party. There have been no formal public protests in Laos for years.

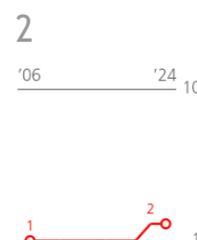
Association / assembly rights



Nonprofit associations (NPAs) are permitted according to the 2009 decree on associations (revised in 2017). The decree is explicit in requiring NPAs to support state development plans and to operate in line with government policies. The 2017 revisions added additional bureaucratic barriers to registration, extended the range of prohibitions applied to NPAs and the requirement that the government approve all sources of foreign funding.

Media organizations and the press are controlled by the LPRP through the Ministry of Information and Culture. There is no plurality of political opinion in the state-controlled media, and while independent lifestyle magazines have proliferated, such publications studiously avoid controversial issues. Unsurprisingly, the Lao population increasingly turns toward social media for information and to express political opinion.

Freedom of expression



However, the government has sought to curtail critical social media discussion. In 2014, it passed a decree to regulate internet communication. Elements of this decree – such as the requirement to protect the LPRP, the nation's peace, independence, sovereignty, democracy and prosperity – were open to broad interpretation and abuse. In the late 2010s and in 2020, the government arrested, tried and imprisoned an increasing number of people using this decree and the civil code.

In May 2021, the party-state even created a government task force to control social media activity (facilitated by the recent obligation to register SIM cards). The task force comprises local government officials and police officers, whose job includes monitoring posts and comments by social media users. For example, critical comments regarding lockdown restrictions were castigated as harmful “disinformation” and persecuted according to the aforementioned decree. This creates a climate of intimidation that limits public expressions of discontent.

3 | Rule of Law

Laos is a Marxist-Leninist one-party state, and the Lao People’s Revolutionary Party (LPRP) exercises a monopoly over political power. The National Assembly, the country’s legislative body, is dominated by the LPRP. In practice, there is little separation of powers in Laos, as the LPRP controls all branches of government and the judiciary is not independent. There is no constitutional court to judge the validity of legislation.

Separation of powers

2

'06 _____ '24 10

The Lao constitution outlines a formal separation of powers, but de facto all state organs remain subject to the ruling LPRP, rendering de jure provisions of checks and balances subordinate to the party. Checks and balances do not therefore apply between the three branches of government, despite the official commitment to the rule of law and the passage of dozens of laws in recent years. It is possible that the phrase “rule of law” has a specific, and different, meaning in socialist countries, as China has also made recent noises in this direction.



The judiciary is institutionally differentiated according to the constitution but, in practice, is not independent of the ruling party. Moreover, according to the socialist ideology of the communist party, the judiciary is not an independent arbitrator in conflicts between citizens or between citizens and the (party-)state but an instrument of the party to implement socialist law. 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.

Independent judiciary

2

'06 _____ '24 10

The National Assembly has passed a growing body of laws according to LPRP commitments to making Laos a “rule-of-law” state.



However, new laws are not widely known or applied, and some aspects of the rule of law, such as the implementation of human rights protection, are not priorities for the government. The body of professional lawyers who may represent clients in court continues to grow. The Lao Bar Association serves as a regulatory body and provides legal education, training and advice through its legal aid program. The association is not an independent body, however, as it continues to work closely with the Ministry of Justice.

Corruption is a long-running issue in Laos. During the conflict that led to their 1975 takeover of the country, the revolutionaries successfully portrayed themselves as sincere and honest, in contrast to the decadence and corruption of the U.S.-backed Royal Lao government. However, after taking power, the revolutionaries appeared to encounter a myriad of problems, and when Kaysone Phomvihane passed power to Khamtay Siphandone in 1998, the country entered a renewed era of corruption. Accurate estimates are not possible, but it is safe to assume that a large proportion of people holding an official position, whether in the civil service or local administration, use it for personal gain. However, it would be misleading to suggest that corruption is so widespread as to be socially sanctioned; to the contrary, there is a widespread, everyday discourse of discontent regarding corruption, which is perhaps less tolerated in light of the current crisis.

When Thongloun Sisoulith's government took office in 2016, hopes were raised for more purposeful anti-corruption politics. Press reports highlighting the activities of the party inspection commission and state inspection authority in disciplining officials became a staple of the state-run press. While most offenders remained unnamed (and punishments of high-level perpetrators – many of whom in fact avoid prosecution – went mostly unreported), newspapers published detailed statistics on the number of investigations, prosecutions and the costs of corruption to the government's finances.

Such developments suggest the party leadership recognizes the threat corruption poses to its legitimacy. Nevertheless, its efforts in this domain continue to be limited by its entrenched and endemic nature, especially – it is believed – at high levels of the LPRP apparatus. The family of new Prime Minister Sonexay Siphandone has earned considerable renown for using political power for private gains. Expectations of political accountability are low.

In practice, corruption remains a significant problem in Laos, and the government's efforts have been unsuccessful in stopping it. Despite the legal framework and institutions in place, enforcement of the laws and regulations remains weak, and corruption is still prevalent in many sectors, including when it comes to the allocation of land, natural resources and government contracts.

Civil rights are provided by the constitution but are not observed in practice. The protection of personal liberty against state and non-state actors, including the right to life and security of the person, the prohibition of torture, cruel and inhuman treatment or punishment, and the protection of privacy, is not secured in politically sensitive cases such as persons who voice criticism online and dissidents abroad. Due to de facto inequalities in terms of status, income and other relevant socioeconomic resources, equality before the law, equal access to justice and due process under the rule of law are not a given.

Prosecution of office abuse

2

'06 _____ '24 10



Civil rights

2

'06 _____ '24 10



Rights of assembly and expression are not upheld in the sense that they are intended in multiparty democracies. In the “people’s democracy,” assembly and expression are only permitted when in line with the overall goals and aspirations of “the people,” goals and aspirations that are considered to be identical to those of the LPRP. Religious freedom is limited in cases where authorities believe religious differences may be detrimental to human health, socioeconomic development, or interethnic unity.

4 | Stability of Democratic Institutions

As a single-party Marxist-Leninist state, political power in Laos is monopolized by the LPRP, and there are no hints of liberalization. Although the National Assembly has become increasingly outspoken in recent years, only party members and a few party-approved independents are permitted to run for office. The same appears to be true of the provincial people’s councils, first elected in 2016. The LPRP also pervades the executive, with ministers typically leading their ministry’s party committee and the administration. In practice, the judiciary is also a party instrument.

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

The political actors in the Lao People’s Democratic Republic have a concept of democracy (which in fact forms part of the national slogan “Prosperity, Development, Democracy, Justice”) that is heavily influenced by the Leninist concept of “democratic centralism.” The ruling Lao People’s Revolutionary Party aims to embody the will of the population as a whole, with an emphasis on societal unity, and where political decisions are made through a process of consultation and debate among party members first, and then through extensive consultation at provincial and district levels with “the people.” Laos is not a multiparty democracy. All political and state institutions form part of the one-party state governed by the uncontested LPRP. In adopting this position, the LPRP has powerful support from the communist parties of Vietnam and China, both of which enjoy close relations with the Lao regime. The LPRP also enjoys support from semi-democracies such as Thailand – which are witnessing authoritarian tendencies themselves – and other ASEAN countries that follow the principle of noninterference. In summary, there is strong regional support

Performance of democratic institutions



Commitment to democratic institutions



for Laos' definition of democracy. There is also strong internal support for this concept. Even if people grumble about particular policy directions, there is a widespread sense that unity is the most important value and that multiparty democracy would be divisive without giving a voice to ordinary people.

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. In January 2021, when the Tenth Party Congress was held, party membership was officially reported to be 348,686, an increase of 80,000 over the previous five years and comprising almost 5% of the population. Membership is attractive to those who are politically ambitious and to those who seek to tap into networks of influence. The party actively recruits members from among the educated elite, the bureaucracy and, more recently, business circles.

During the review period, the financial and economic crisis has put LPRP legitimacy under considerable strain. The unprecedented change of the prime minister was perhaps the clearest sign of the LPRP's nervousness. With the smooth transfer of power to one of the most influential “princelings” of the regime, the party has achieved stability and an ongoing commitment to undisputed power.

The largest and most prominent associations representing social interests are the LPRP's mass organizations, including the Lao Federation of Trade Unions, Lao Women's Union, Lao People's Revolutionary Youth Union and Lao Front for National Development (LFND). The LFND includes representatives of ethnic minorities, religious organizations and professional associations such as the Lao Bar Association and the Lao Chamber of Commerce. Mass organizations are the main venues of mobilization and participation, yet they always act in line with LPRP directives.

Nonprofit associations (NPAs) are permitted to operate in Laos, often in cooperation with international counterparts, but only within a restrictive climate. The revised decree on associations (2017) created a number of bureaucratic obstacles for Lao social organizations, such as the requirement to obtain government approval of foreign funding. The tenth anniversary of the disappearance of activist Sombath Somphone (2012) recalled the risky environment that civil society organizations face in Laos.

Party system
1

Year	Score
'06	1
'24	1

1

Interest groups
2

Year	Score
'06	1
'24	2

1

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, the extent of approval of democratic performance and institutions in Laos cannot be assessed.

Approval of democracy

n/a



Despite a repressive climate with regard to independent social and political activism, a number of self-organized groups – albeit limited and unevenly distributed – represent social cooperation and a relatively high level of trust. Besides family and patronage networks, marked by ambiguous relations of trust and obligations, village communities (in particular if ethnically homogeneous), sport teams (sometimes representing work groups), and Buddhist temples constitute key loci of civic self-organization. In the capital of Vientiane, the growing middle class demonstrate an interest in forming social and cultural groups around issues such as ecology or organic farming, although this dynamic was interrupted by the COVID-19 pandemic.



Social capital

5



II. Economic Transformation

6 | Level of Socioeconomic Development

The Gini coefficient of 38.8 (no update since 2018) masks the socioeconomic inequalities in Laos that have worsened during the current crisis. Approximately two million people in Laos live on less than \$3.65 a day. In early 2022, state authorities reported approximately half a million unemployed people in Laos, which is roughly one-sixth of the World Bank’s estimate of the total Lao workforce.

Question
Score

Socioeconomic barriers

4



This signifies a setback to the substantial progress experienced in recent decades, reflected, among other indicators, in the increased life expectancy from 53.4 years in 1990 to 68 years. The Gender Inequality Index (GII) remained stable at 0.478 in 2021, with Laos ranking 82 out of 130 countries. Laos’ human development index (HDI) score slightly decreased to 0.607, with the country ranked 140 out of 191 countries. Nevertheless, this still marks an improvement of more than 50% since 1990. Economic gains have led to a decline in poverty headcount levels in recent decades, with GNI totaling \$17.69 billion in 2021 and \$8.16 billion in 2011. However, inequality has remained significant and deeply entrenched, even prior to the impact of the COVID-19 pandemic on the country.



Poverty risk further increased after the global economic downturn following Russia's invasion of Ukraine. In Laos, the price increase of food, fuel, and imported consumer goods aggravated the hardships of the urban poor, especially those who lost their jobs during the pandemic or struggled in the informal sector without social security. More generally, inflation left real wages and purchasing power significantly lower.

The significant price increase of fuel and fertilizer had a particularly harsh impact on the rural population, leading to a decrease in agricultural output and an increase in food insecurity. Additionally, the region experienced flooding in 2022, further exacerbating economic vulnerability in rural areas. The poverty brought about by development projects such as hydropower and mining has resulted in continuous challenges to the affected communities' livelihoods.

Despite a slight recovery at the beginning of 2023, segments of the population continue to experience income losses, with household revenues still below pre-pandemic levels. The issue persists as the capital-intensive, resource-driven growth model has failed to generate employment opportunities for the majority of the population. The relaxed border policies in the region have led to an increase in Lao labor migration to Thailand, offering some relief to many impoverished households.

Economic indicators		2019	2020	2021	2022
GDP	\$ M	18740.6	18981.8	18827.1	15724.4
GDP growth	%	5.5	0.5	2.5	2.7
Inflation (CPI)	%	3.3	5.1	3.8	23.0
Unemployment	%	3.3	3.6	3.6	2.6
Foreign direct investment	% of GDP	4.0	5.1	5.7	3.4
Export growth	%	-	-	-	-
Import growth	%	-	-	-	-
Current account balance	\$ M	-1319.6	-231.0	446.6	-
Public debt	% of GDP	69.1	76.0	92.4	128.5
External debt	\$ M	16571.5	17431.2	17187.9	-
Total debt service	\$ M	812.8	688.0	721.8	-

Economic indicators		2019	2020	2021	2022
Net lending/borrowing	% of GDP	-	-	-	-
Tax revenue	% of GDP	-	-	-	-
Government consumption	% of GDP	-	-	-	-
Public education spending	% of GDP	2.1	1.9	1.9	1.4
Public health spending	% of GDP	1.0	1.2	-	-
R&D expenditure	% of GDP	-	-	-	-
Military expenditure	% of GDP	-	-	-	-

Sources (as of December 2023): 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 transitioning from a command economy to a mixed economy with market features. Prices are determined by the market, the Lao kip (LAK) is convertible, and profits from foreign investments can be transferred internationally. However, competition operates within an insufficient institutional and regulatory framework, which fosters a business culture based on negotiations and agreements rather than established rules. This lack of structure and transparency reduces predictability. Furthermore, when disputes arise, the legal system fails to offer adequate protection to businesses against individuals with influential political connections.

The Lao government has made efforts to establish a “one-stop service” in order to provide adequate support.

Services for obtaining operating licenses and procedures for investment remain cumbersome.

Tax administration is still considered one of the biggest barriers to commerce in Laos. Firm registration procedures and operating licensing requirements can be expensive and time-consuming.

During the COVID-19 pandemic, macroeconomic vulnerabilities and restricted mobility affected market participants to varying degrees, with the services sector suffering the most. The fuel crisis impacted both small and large businesses equally. The government’s emphasis on resource-based development has so far been unsuccessful in generating employment opportunities for the population. As expected, the informal sector continues to play a significant role, accounting for 27.2% of employment according to ILO estimates.

Market organization

4

'06 _____ '24 10



1

Numerous state agencies work on the implementation and enforcement of the 2014 Law on Business Competition, such as the Ministry of Industry and Commerce and the Ministry of Planning and Investment. The latter is responsible for approving and registering businesses in Laos. The competition law addresses four substantive areas: uncompetitive trading practices, anti-competitive agreements, abuse of market power and monopolization, and anti-competitive mergers. One obstacle to further reforms is the fact that the government retains control of many state-owned enterprises (some of them monopolistic) that it considers strategic or essential for national development. Laos is not yet a member of the International Competition Network.

Laos is now extensively integrated into regional and global markets. Trade liberalization has been guided by its membership in ASEAN. In 2013, Laos also joined the WTO, and in 2020, it became one of the founding members of the Regional Comprehensive Economic Partnership (RCEP). Joining these frameworks has necessitated extensive and continuous reforms in various areas, including tariffs, nontariff measures, customs, trade facilitation, taxation, foreign exchange, investment and import/export procedures.

As it seeks to control national development, the Lao government maintains a significant level of formal and informal influence over large and medium-sized enterprises, thereby reducing trade competition. Nevertheless, Laos has committed to simplifying nontariff barriers in accordance with its ASEAN commitments. However, the ongoing economic crisis has hindered advancements in this area.

The Bank of the Lao PDR is the central bank and regulator of the country's financial system, including the banking sector. It is an independent institution established under the Bank of the Lao PDR Law, which was passed in 1997. According to the law, the Bank of the Lao PDR collaborates closely with government agencies such as the Ministry of Finance.

The recent economic and fiscal crisis has left the banking sector in a strained position, with the capital-to-asset ratio falling below the minimum regulatory level of 8% in 2022. Five of the 10 largest banks – accounting for 80% of total banking system assets – have capital-to-asset ratios below the average. Many banks have incurred higher accrued interest, while return-on-equity and return-on-assets, which measure profitability, declined in the first quarter of 2022. However, the number of nonperforming loans have declined due to improved asset quality in restructured state-owned banks (from an all-time high of 3.2% in June 2020 to 2.1% in September 2022).

Measures to mitigate multiple economic shocks occasionally contradicted each other, most notably with regard to handling inflation. In 2020, as an initial measure to ease the economic impacts of COVID-19, the government lowered policy rates and reserve requirements. In October 2022, the central bank responded to currency depreciation with monetary tightening (raising the short-term policy rate from 3.1%

Competition policy

3

'06 '24 10



Liberalization of foreign trade

7

'06 '24 10



1

Banking system

4

'06 '24 10



1

to 6.5%). Laos witnessed the issuing of bonds in the Thai market and expanded credit programs (credit to the economy reached 59% of GDP in August 2022). Public borrowing from the domestic banking sector increased due to limited access to international capital markets, adding more pressure on bank balance sheets.

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 noncompliant entities. More recently, in August 2018, the government revised the Bank of the Lao PDR Law, enabling the central bank to move toward risk-based supervision and implement additional reforms in line with international standards. However, implementation remains an ongoing challenge.

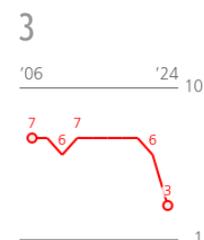
8 | Monetary and fiscal stability

In the two decades before the COVID-19 pandemic, Lao monetary policies maintained inflation at a low level, achieving macroeconomic stability. However, this has changed dramatically in recent years. Inflation skyrocketed in 2022 (reaching 38.4% year on year in November) due to increases in energy and consumer goods, as well as the depreciation of the kip (exacerbated by Russia's invasion of Ukraine). For 2023, the IMF forecasts a budget deficit for Laos of 2.6% of GDP. World Bank data from 2021 indicates that external debt reached \$17.19 billion in 2021, with debt service on external debt totaling \$721.82 million.

The central bank, the Bank of the Lao PDR, is controlled by the state and oversees a managed floating exchange rate aimed at maintaining nominal exchange rate stability against the U.S. dollar. The official exchange rate usually aligns with the free market rate. However, the kip has faced increased pressure, as it had already been rising in recent years, and this pressure intensified following the outbreak of the COVID-19 pandemic. In October 2022, the official exchange rate depreciated by 68% against the U.S. dollar (compared to October 2021), while the parallel exchange rate weakened by 57%.

Mitigating activities by the central bank initially included lowering policy rates and reserve requirements, expanding credit programs (credit to the economy reached 59% of GDP in August 2022), and issuing savings bonds. The bank also tightened exchange controls by placing daily limits on foreign exchange transactions and closed unlicensed exchange bureaus. However, these measures were hampered by structural imbalances.

Monetary stability



Fiscal deterioration has further worsened Laos's already troubling debt profile. The country carries a high debt burden of \$14.5 billion (89% of GDP as of late 2021), along with low foreign currency reserves, leading to liquidity challenges and overall macroeconomic instability. Recent assessments indicate a potential increase in the public and publicly guaranteed debt stock to 100% of GDP due to significant currency depreciation in 2022. However, there is a likelihood of sovereign default prevention through debt service deferrals from China and Thailand.

SOEs are still responsible for over 40% of public debt, with Électricité du Laos (EDL) being the primary culprit. This company is especially infamous for its unsustainable debt accumulation and operating losses. Laos addresses the debt crisis through debt restructuring agreements and other measures, particularly with its main lender, China. China accounts for approximately half of the external public debt stock, exemplified by a currency swap arrangement valued at \$900 million extended by the People's Bank of China in 2021.

The Lao banking sector experienced liquidity stress due to inadequate foreign currency reserves and restricted access to international capital markets. Measures taken by the government to address this issue included issuing bonds in the Thai market, receiving repayments from SOEs, utilizing revenues from the natural resource sector, and implementing tighter public expenditure (which fell to 5.6% of GDP in 2022). As external financing options remained limited, the government turned to borrowing from the domestic banking sector.

Currency depreciation certainly exacerbated financial woes as many enterprises earn revenue in Lao kip but face debt-repayment obligations denominated in foreign currencies. After having accorded junk ratings of CCC to Lao bonds in recent years, Fitch finally withdrew its ratings of Laos completely in late 2022.

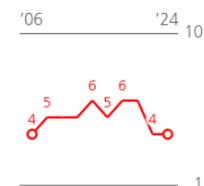
9 | Private Property

The Lao constitution formally provides property rights and charges the state with upholding rights to use, transfer, and inherit land "in accordance with the law." This vague formulation is clarified in the revised Land Law (2019), which states more pointedly that land is under the ownership of the national community, with the state – as the community's representative – managing it in a centralized and uniform manner. This formulation gives the state considerable powers to seize land and determine compensation, particularly over customary and communal lands.

In rural areas, families have user rights to agricultural land, which are transferable, taxable, and heritable. However, authorities often disregard the rights of local communities or provide insufficient compensation to those who have lost access to or ownership of land classified as "unimproved." This problem has been exacerbated by the increase in foreign demand for agricultural concessions in recent decades.

Fiscal stability

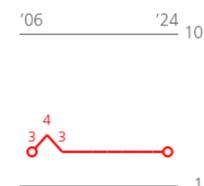
4



1

Property rights

3

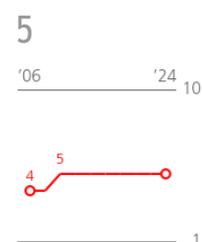


1

Despite various moratoria on new concessions, rural land issues continue to be one of the main sources of social injustice in Laos today. Although there has been local resistance and the matter has been raised in the National Assembly, rural populations have few options for seeking redress.

The government of Laos pursues a market-socialist approach. Domestic and foreign-owned private companies are permitted to operate and are, in theory, protected by the Enterprise Law (amended 2013). Most state-owned enterprises have been privatized, but those the government considers strategic remain under state control, including in the electricity and water sectors. The government is a major local player in the rapidly expanding hydropower industry, partnering with private businesses. Private enterprise has increased competition in sectors such as telecommunications and drinking water. State employees are poorly paid, and it is common for some family members of high-ranking officials, such as spouses, to work in private business. Government contracts may be awarded to private companies with connections to high-ranking party members. Commercial projects sometimes face difficulties without political support or the right government contacts, and foreign companies sometimes pay significant amounts for such patronage.

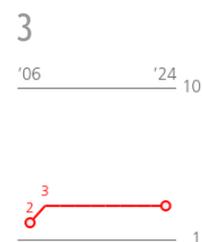
Private enterprise



10 | Welfare Regime

During the pandemic, approximately 500,000 individuals lost their jobs as inflation undermined social insecurity. The National Social Security Fund, which only covers a fraction of the working population, was unable to mitigate the economic hardships. The government primarily implemented price support measures in response.

Social safety nets



The economic crisis thwarted ambitious programs, such as the National Social Protection Strategy – developed with the United Nations, ILO and other international partners – that aim to provide universal access to health insurance, social security, and social welfare by 2030.

In the current crisis, the reforms failed to reach vulnerable groups, such as workers in the informal sector and work migrants who were forced to leave their host countries, especially Thailand. Many Lao work migrants returned to their villages and relied on the small-scale networks of kinship, villages, ethnicity, and patronage that serve as the primary social safety net in rural areas. The state apparatus extends to the village and sub-village level, with strong cultural and official expectations that villagers will care for one another, particularly in instances of sudden setbacks and poverty. Some retirees now receive government pensions, especially those who provided distinguished service during the war or in government work. Laos is moving toward universal health coverage, with certain services guaranteed as free, such as mother-and-child health care until the child reaches the age of five. Private charity is increasingly popular among wealthier Lao individuals, either through religious organizations or local groups like sports teams.

The constitution of Laos states that “Citizens of both genders enjoy equal rights in the political, economic, cultural, and social fields and in family affairs” (Article 37). Laos is a signatory of the Convention on the Elimination of All Forms of Discrimination Against Women (CEDAW) and has made a number of changes in line with CEDAW recommendations. For example, in 2022, the legal status of abortion was clarified, and the circumstances under which abortion is permitted were substantially increased. Both the urban and rural poor suffered disproportionately from the skyrocketing inflation of 2022. Coping strategies, such as reduced spending on food, health and education, are certainly detrimental to long-term human capital development. The increase in fuel and fertilizer prices severely affected rural households.

Recent years have witnessed a better representation of women and ethnic minorities in the party-state. Women hold 36 out of 164 seats in the National Assembly. However, social inequalities persist. Even though women comprise almost half of the workforce, their adult literacy rate remains significantly lower than that of men. Ethnic minority populations still have poorer access to education than the ethnic Lao-Tai majority.

11 | Economic Performance

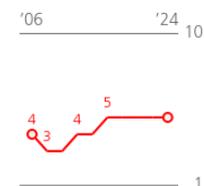
During the review period, Laos experienced its most severe fiscal and economic crisis since the 1990s. The COVID-19 pandemic and Russia’s invasion of Ukraine represented numerous economic shocks that revealed and worsened macroeconomic vulnerabilities and dependencies. These shocks included the extensive debt distress in the Lao economy. Inflation, reaching an average of 23% in 2022 (the highest in the region), along with the depreciation of the Lao kip, resulted in a decline in real wages and purchasing power.

After a pandemic-induced recession, the Lao economy slowly recovered with a GDP growth of 2.5% in 2022, which was nevertheless far below the targets formulated in the five-year National Socioeconomic Development Plan (NSED). The services sector recovered slowly but was bolstered by a transport and logistics sector boost following the opening of the Lao-China railway and the Thanaleng Dry Port in 2021. Tourism in 2022 reached just 10% of pre-pandemic levels. Industrial growth stagnated in 2022 as large-scale construction projects had been completed in the period before, such as the railway and hydropower dams. FDI fell by nearly 50% from the \$1.07 billion received in 2021. Meanwhile, the agricultural sector suffered from the skyrocketing fuel and fertilizer prices.

The unemployment rate in Laos is difficult to assess due to the significant informal sector and the migration of workers for seasonal employment. Estimates indicate a loss of 500,000 jobs due to the pandemic, primarily in the services sector. In 2021, the account balance equaled 2.4% of GDP, rebounding from two years of deficits.

Equal opportunity

5



Output strength

4



The fiscal balance recently shifted to a surplus (0.7% of GDP) as a result of improved revenues, reduced expenditures, and the deferral of interest payments, which provide only temporary relief.

The high debt burden of \$14.5 billion (89% of GDP in late 2021) and the low foreign currency reserves result in liquidity challenges and macroeconomic instability. More recent assessments suggest an increase of the public and publicly guaranteed debt stock to 100% of GDP due to the sharp currency depreciation during 2022. Debt service deferrals and other debt restructuring agreements, mainly with China and entailing further dependencies, are required to avoid default, with annual debt payments accounting for around \$1.2 billion between 2020 and 2025. Junk ratings accorded to government bonds by Fitch and Moody's emblemize Laos' financial woes.

12 | Sustainability

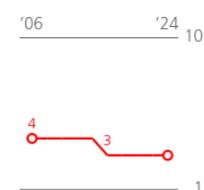
Laos has signed relevant international conventions, increased international awareness of biodiversity protection, and formulated domestic policies, such as the Green Growth Strategy, which reflect environmental concerns. Logging exports have decreased in recent years. There are 17 national biodiversity conservation areas where both flora and fauna are protected; however, these are also home to local people, and the government remains committed to these people's rights to make a living. The government has struggled to control illegal logging and wildlife poaching in these areas. The government's main priority in natural resource management is economic growth.

Reflecting a general tendency within the Lao economy, the country recently witnessed an expansion of hydropower and mining, together accounting for 21% of economic output in 2021. The government considers these sectors to be primary instruments for post-pandemic economic recovery. However, the fact that the government uses natural resource extraction for debt service deferrals renders the outlook for sustainable development bleak.

Perhaps the most significant project during the review period was the completion of the Nam Ou cascade hydropower project, a collection of seven hydropower dams on the Nam Ou river, overseen by PowerChina. Experts view these types of projects as economically unfeasible when considering the trade-off with regards to the decline in fish stocks, sediment, and the costs associated with social mitigation.

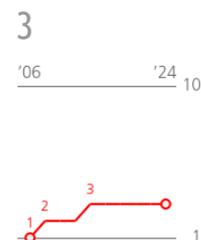
Environmental
policy

3



The LPRP has a long-standing policy of “Education for All,” dating back to the pre-revolutionary period. This commitment to expanding education has continued since the 1975 revolution, despite significant constraints in terms of funding, personnel, and logistics. Three articles in the revised 2015 constitution explicitly mention the state’s role in providing education and recognize education as a citizen’s right. However, Laos’s score on the U.N. Education Index fell to 0.461 in 2021, the lowest among mainland Southeast Asian countries. The pandemic lockdowns exacerbated issues with school education, as many children had to resort to homeschooling for extended periods. Numerous students lacked access to online learning materials, or their access was sporadic. Public spending on education remains inadequate, not only during the current crisis. Expenditure on education reached 2.3% of GDP in 2020, marking a continuous decline since 2013 when it was 3.4%. The government has publicly committed to allocating 1% of GDP to research and development, and the Ministry of Education, which underwent reorganization in 2022, is responsible for this area.

Education policy / R&D



Governance

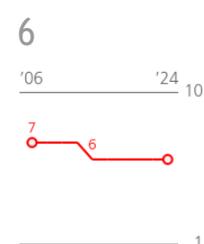
I. Level of Difficulty

Laos has fairly high constraints on governance. Geographically, the country is landlocked, with steep mountains in the north and east. Infrastructure construction has been a continual priority but has been stymied by “triangle debt” deals where contractors promise to build roads but with highly inflated costs and insufficient quality control. The long Second Indochina War left significant “wounds”, which have taken a long time to heal; Laos must be understood as a postwar country. Unexploded ordnances left by the staggeringly intense U.S. bombardments remain a significant barrier to development and transport. The bombing campaign targeted infrastructure in particular. The population is relatively small, dispersed and economically disadvantaged when compared to other countries in the region. Another significant constraint is the low level of human resource development. Educational levels and literacy rates are well below ASEAN averages.

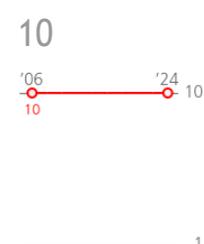
Although the COVID-19 pandemic did not cause a health crisis in Laos, it resulted in a serious economic downturn, which disproportionately affected vulnerable groups. The fiscal and debt impacts of the economic crisis will be felt for several years to come. HIV/AIDS infection rates, though low by international standards, remain a concern, as do malaria, dengue and tuberculosis.

The LPRP understands itself as representing all people in Laos; it is a people’s party, and Laos is a people’s democracy. To Western observers, it may appear as though there is no civil society in Laos, but this is not how it appears to party theorists. In terms of traditions, these are quite strong because the LPRP (arguably much more so than in liberal democracy settings) insists on the involvement of all citizens in politics. Local people are expected and encouraged to be informed about current affairs and contribute to consultations and meetings. After the communist revolution of 1975, the LPRP created mass organizations to mobilize women, young people, workers and other social groups. These organizations continue to play an important role in Lao society today. However, they do not constitute an independent civil society. The very concept is an anathema to the LPRP, which understands the party and the people as one; there is no politics outside the party. The 2009 decree on associations permitted the formation of social organizations in Laos. However, any organization is required to subscribe to the LPRP development agenda. Effectively proscribing civil society activity independent of the state, the government issued a revised decree in 2017 strengthening its regulation of the sector through, for example,

Structural
constraints



Civil society
traditions



annual registration renewals and rules on foreign funding. By early 2021, fewer than 90 organizations were registered, though even these are required to work closely with government agencies. That said, traditions of participating in public life and social capital are comparatively high in Laos. There is a strong social fabric of networks and organizations that help solve problems, especially at a local level. In this way, local people are more involved in public life and politics than many citizens in liberal democracies.

The overriding value of the LPRP is unity and solidarity. Today, there are very few conflicts. Most violence appears to be related to crime (drug trafficking, for instance) or business. The recent economic disruptions saw a change of prime minister after a relatively short term. This is unusual for Laos and indicates some disharmony within the party, but it appears this was dealt with quickly.

Small-scale protests (only rarely violent) over land appropriation and fuel shortages occur, but these incidents remain isolated and unorganized. Protests are usually met with swift action from both the police and armed forces, with long prison sentences standard for ringleaders.

II. Governance Performance

14 | Steering Capability

The government of Laos coordinates its efforts through the National Socioeconomic Development Plan (NSEDPlan), released every five years, in which each ministry is required to set strategy documents for its specific sectors. The Ministry of Planning and Investment is crucial in these processes, both at a national and provincial level. Strategy documents undergo long periods of consultation domestically and with international partners before they are finalized. Strategy documents are expected to contain detailed goals and plans. After the COVID-19 pandemic plunged the Lao economy into its first recession since the Asian financial crisis of the late 1990s, the LPRP as well as international organizations like the World Bank predicted economic recovery in the medium term. At the Eleventh Party Congress in 2021, the LPRP marked the goal of 4% economic growth (in contrast to 7.5% five years earlier) as a sign of economic recovery and sustainability.

However, the economic downturn continued and transformed into a veritable fiscal and economic crisis (with growth of only 2.5% in 2022), laying bare the shortcomings and vulnerabilities of the Lao macroeconomy. Strategic priorities were abandoned as the government proved incapable of efficient crisis management. In order to meet the lack of currency reserves and ballooning public debt, one measure the government took was the intensification of natural resource exports, counteracting all claims to sustainable growth.

Conflict intensity
3



Year	Score
'06	3
'24	10

3



Year	Score
'06	3
'24	1

Question
Score

Prioritization
5



Year	Score
'06	4
'07	3
'08	4
'09	3
'10	4
'11	4
'12	6
'13	5

4



Year	Score
'06	4
'07	3
'08	4
'09	3
'10	4
'11	4
'12	6
'13	5

There is a gap between policy and practice in Laos. It is common for policies to look good on paper, often reflecting the latest trends in international thinking, but also to reflect little of what actually occurs on the ground. Even powerful actors, such as the World Bank, seem to encounter serious problems when it comes to influencing Laos at the level of implementation. Some of this has to do with the influence of provinces: although policies are formulated at a central level (the “policy directions of the party”), it is widely acknowledged that nothing actually happens locally unless that policy direction finds a place in provincial-level planning and budgeting. Policies are also rolled out in a very experimental way, insofar as consultation, feedback, and adaptation are encouraged and expected at all stages, so that policies have a rather unfinished air about them. Provincial leaders, for example, are expected to adapt policies to the particular needs and capacities of their areas.

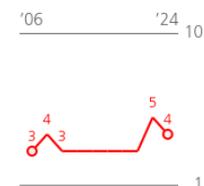
Prime Minister Phankham Viphavanh fell out of party favor, not least due to his apparent ineffectiveness in light of the country’s economic crisis. The government of Laos responded to debt servicing problems with deferral and currency swaps with China. In light of the cash flow crisis, the goals identified in the NSEDP were not met.

Although the LPRP views resource-based development as its way out of the current crisis, resource-based development has indisputably played a role in bringing on the crisis in the first place because this form of development has to date entailed immense dependencies and debt service obligations.

Laos is extremely innovative in its policy formulation. The main policy instruments are strategy documents, visions and plans. These are all subject to extensive consultations at district, provincial and national levels and with international stakeholders. As a result, policies are often very sophisticated, reflecting the latest trends in international thinking. Laos, for instance, is a signatory to CEDAW and has moved to implement many of those recommendations at a national level. National Assembly representatives regularly visit their constituents to monitor and follow up on the progress of plans and strategies at a local level and feed this information back into the policy process. The National Assembly is often driven by “hot topics,” issues that suddenly gain popular and political attention and require a fast policy response. This, in turn, contributes to policy churn. This is not always a good thing. Policy churn (a situation where new policies emerge in quick succession) means that the policy and legal environment can be extremely complex, with multiple and perhaps conflicting sets of regulations applying to any one sector (this is very noticeable, for instance, in forestry). One result is that actors that might be constrained by one set of regulations can appeal to another to advance their interests. Another detrimental effect of policy churn is that policymakers are extremely busy. Although there is a strong positive sentiment toward evidence-based policy among Lao policymakers, they are often too busy to identify, assess and synthesize evidence in a timely manner. Evidence from external partners is often perceived as untimely, irrelevant to current

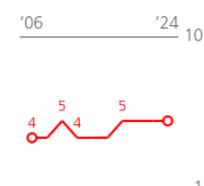
Implementation

4



Policy learning

5



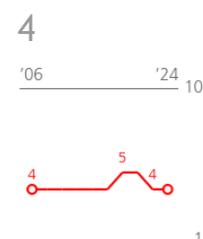
“hot topics,” or not created in a form that is collaborative enough to satisfy Lao standards of consultation. Laos was widely acclaimed for its handling of the COVID-19 pandemic in cooperation with international partners. The response yielded satisfying results, including a countrywide vaccination campaign.

15 | Resource Efficiency

The efficiency of government administrative personnel and the efficient use of budget resources in Laos is a matter of ongoing concern and debate. The problem potentially began under the French, when Vietnamese and French administrators were favored over local hires. During the revolution, many of the most educated people fled Laos. The LPRP has continually emphasized education and “raising the level” of the population. However, many problems remain with the standard of government personnel. One problem is the “quota” system for hiring staff. This is intended to be a way of improving the quality of the civil service by hiring only the best and brightest, while also cutting back on unnecessary government salary costs. Unfortunately, the result is that people who do not succeed in landing such a job often end up working as volunteers and jumping to the front of the line when the next quota job becomes available, even if they are not the best or brightest person for the job. Another problem is that people see “quota” jobs as something that can be purchased and, once attained, are a means for reaping personal gain. Many civil servants generate their main income from work outside the office. The purpose of government jobs is not necessarily the income that comes with it (which is often paltry) but the prestige and influence. As a result, there are frequently few people, if any, in any given government office, who are actually good at their jobs. The only tool the party seems to have to inspire better performance seems to be the regular exhortations to do better in party-driven pushes (such as the “Four Breakthroughs” slogan). The fiscal and economic downturn that occurred during the review period has only placed more pressure on the government to downsize, and all ministries underwent major restructuring with an eye to reducing headcount during the review period. In reality, these staff were often redeployed, while others took early retirement. The problems with the “quota” system have only been heightened by the crisis.

Laos has been facing difficulties in implementing effective budget management and financial control systems while facing accumulated macroeconomic imbalances, all of which can lead to inefficiencies in the use of budget resources. In addition, corruption, clientelism and a lack of transparency play a role in the inefficiency of the use of budget resources, as officials may embezzle funds or redirect them to personal or political gain.

Efficient use of assets



Despite efforts to promote coherent policy through the five-yearly NSEDP process, coherence remains weak due to the challenge of coordinating the political and economic priorities of the government, as well as the structural conflicts that still exist between ministries and between the central and provincial administrations. The staffing of ministries is highly politicized, as ministers often make appointments designed to strengthen their patronage networks, and ministries often function as autonomous fields of power to be protected from outside interference, which limits coordination and cooperation.

Policy coordination

4

'06 _____ '24 10



1

The government has established interministerial task forces in response to crises of national significance, though results have been mixed. Whereas the committee charged with responding to the Xe Pian-Xe Namnoy saddle dam collapse in 2018 is still struggling to adequately provide for displaced survivors, the National Taskforce Committee for COVID-19 Prevention and Control yielded relatively satisfactory results when compared to other Southeast Asian countries. The taskforce to control social media use seems to be efficient (but this is certainly not good news for free speech in Laos). During the review period, it was evident that there was a lack of government capacity to address the debt crisis, inflation and the devaluation of the kip.

In 2016, when the Lao State Inspection Authority (SIA) was established under the Prime Minister's Office, it raised hopes that the LPRP would seriously combat corruption and promote transparency and good governance. Besides a number of forced resignations and a considerable amount of confiscated money, anti-corruption campaigns never equaled those of China or Vietnam.

Anti-corruption policy

3

'06 _____ '24 10



1

The high turnover in the 2021 National Assembly elections, which saw a number of older cadres more or less voluntarily retire, indicates a certain influence of the SIA.

That said, the SIA appears more as an instrument of party discipline than one that addresses the endemic corruption in Lao society. Details of court proceedings usually do not reach the press (again, in contrast to China and Vietnam).

Rumors circulating on Facebook and other social media – in spite of the strict surveillance policy – sometimes hint at cases of graft and corruption. Excessive display of wealth by the political elite fosters public discontent, something that has become more pronounced during the past two to three years of widespread economic hardship. Critical comments regarding the former prime minister's palace-like mansion perhaps added to his loss of legitimacy in the eyes of both people and party. However, new Prime Minister Sonexay Siphandone and his powerful family network are also notorious for acting primarily for personal gain.

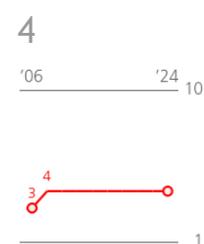
In general, there are several structural obstacles to preventing corruption among state officials in Laos. One of the main obstacles is a lack of political will to take strong action against corruption. Many officials may be reluctant to investigate or prosecute other officials for fear of retaliation. Another obstacle is a lack of transparency and accountability in government and business, as well as the lack of an independent judiciary. This makes it difficult for citizens to hold officials accountable for their actions and allows corrupt officials to operate with impunity.

16 | Consensus-Building

“Solidarity,” “consensus” and “democracy” are core rhetorical values of the LPRP regime. There are times and places where dissenting views are aired, but the end goal is always unity of goal and purpose. This form of democracy, democratic centralism, is unlike the debate and divisiveness of multiparty democracy. The state and many people seem to concur that the stability of Lao politics takes priority over any other political aims. Unsurprisingly, the political elite has been concerned about the spillover effects of the political crises in Thailand and Myanmar, and, more recently, of the growing public discontent about crisis management in China and Vietnam. Meanwhile, 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, as perhaps best reflected by the relatively smooth replacement of its prime minister. Certainly, no senior party figures can be heard advocating for multiparty democratic reforms.

Key decision-makers within the party appear to agree that the best way to develop the economy is by maintaining the current multi-sectoral economy, which combines market-based elements (especially for attracting foreign investment) with state economic planning and enterprises. There is broad support, in the party and beyond, for the political goal of graduating from LDC status by 2026. This goal was postponed due to the COVID-19 pandemic, but the postponement did not account for the additional strain put on the Lao economy, which is heavily dependent on imports and loans, caused by Russia’s invasion of Ukraine in 2022. Beyond that, there is less consensus on the purpose of economic development. While some leaders and bureaucrats are motivated by the desire to eradicate poverty, develop the country’s human resources and reduce inequality, others seem to embrace growth as a means to enhance business interests and – in some cases – their personal wealth. Many elites, including entrepreneurs and urbanites, place high social value on prosperity and progress, while others seek to promote a more equitable society through human-centered development policies. Since 2012, however, pressure on civil society organizations focused on social and environmental justice has further restricted discussions of alternative development priorities. As in the political sphere, the relative lack of dissent is more likely an indicator of repression than consensus.

Consensus on goals



Democratic reform in Laos primarily means striving to live up to the high ideals of being a true people’s democracy. Politicians, bureaucrats and party members are constantly encouraged (through training, newspapers, and party-led drives) to improve their understanding and representativeness of “the people” in line with a “correct” and “scientific” analysis based on party doctrine. In this sense, Laos is in a constant state of “reform,” with waves of renewed democratic urgings pulsing out from the center, often in the form of slogans and campaigns, such as the current “five builds” campaign. This is a different understanding of democracy from that promoted by liberal multiparty democracy. But the Lao PDR has never claimed to be a liberal multiparty democracy, and there is little reason to judge them by standards that they never aspired to. That said, reformers in Laos – in the sense outlined above – have little or no control over anti-democratic actors, such as powerful business interests and corrupt agents. No matter how catchy the slogan or how strenuous the efforts of party campaigners, anti-democratic elements remain a serious obstacle in Laos.

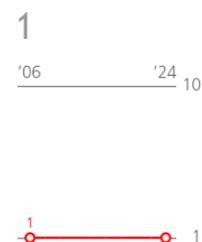
The current crisis in Laos neither mitigates nor aggravates the latent political cleavages in the country. Rather than being ideological, cleavages arise from competition for resources between powerful patrons and their clients, between provincial and regional interests, and between the dominant lowland Lao and ethnic minorities who believe they are not being treated equitably. The LPRP cannot eliminate these divisions, but it has been relatively effective in preventing them from escalating, not least due to its permeation of all levels of society.

Tensions within the party apparatus remain between military and civilian factions, between older career cadres and new-generation technocrats. However, facing the current crisis and looming loss of legitimacy, any such animosities appear to be pushed aside for the sake of stability, unity and peace. In the past, cleavages between factions leaning toward either Vietnam or China fueled speculations of internal dissent, but those seem to be less relevant now. Sonexay Siphandone, the new prime minister, maintains excellent political and economic relations with both Hanoi and Beijing.

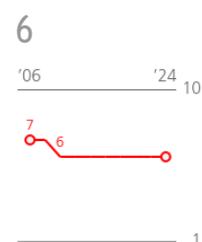
Lao policymaking is highly consultative, but this is not thought of through the rubric of “civil society.” In Laos, the main actors are “the people,” the party, and the government. The party imagines itself as representing the people, and the government is tasked with serving the people’s interests under the guidance of the party. In practice, this means that people at all levels, from village through to districts and provinces and the center, spend considerable time in meetings and commenting on or contributing to state affairs at various levels. Consultation also includes relevant specialists, technicians and international partners. This was evident in the management of the COVID-19 pandemic, where researchers and scientists were involved in decision-making processes that showed a degree of transparency.

There are some domestic NGOs operating in Laos, but they are small in scale and scope, and their activities are closely monitored and controlled by the government. The hotline to the National Assembly, where individuals can raise their concerns about political issues, remains one of the few positive examples of participation.

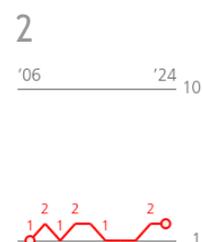
Anti-democratic actors



Cleavage / conflict management



Public consultation



The LPRP has for years reached out to overseas Lao communities that fled the country after the 1975 revolution in an effort toward reconciliation. These efforts have included encouraging expats to return to and invest in Laos, and symbolically inviting overseas Lao delegations to attend high-profile national events (albeit to a limited degree in the past couple of years due to the pandemic).

However, reconciliation takes place purely on the terms of the regime, which continues to legitimize its rule by celebrating the history of revolutionary struggle. Although the government does not permit dual citizenship, overseas Lao may visit Laos or relocate permanently for work or business. Like other former opponents of the regime, however, they are proscribed from involvement in politics.

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

17 | International Cooperation

Laos has been remarkably successful in attracting foreign aid from across the ideological spectrum. In order to do so, it includes development partners in triennial roundtable meetings (RTM), which help to develop and monitor its five-year NSEDPs. While the government presents itself as willing to consider economic reforms in order to bring about greater administrative efficiency and transparency and agrees to make sufficient progress to ensure that economic assistance continues, it resists international pressure for democratic reform. 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 to 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 numerous hydropower dams, have been funded with support from such partners.

Reconciliation

4

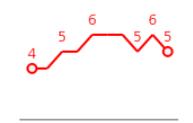
'06 _____ '24 10



Effective use of support

5

'06 _____ '24 10



The COVID-19 pandemic-induced economic downturn forced the government to acknowledge that indiscriminate borrowing for several hydropower projects had resulted in a growing debt burden, which has ultimately imperiled the economy. Debt service deferrals (especially from China) helped to avoid sovereign default.

The Lao government continues to carefully balance its warm relations with its larger neighbors China, Vietnam and Thailand. Since major political figures in Laos, such as Prime Minister Sonexay Siphandone, have studied in the Soviet Union, the LPRP leadership also maintains good relations with Russia. As in the case of Vietnam, Russian military aid is key to national defense. Accordingly, both countries abstained from voting on a U.N. resolution condemning Russia's invasion of Ukraine in 2022. This clearly undermines Laos' international credibility.

The Lao government has hitherto been considered a reliable partner by international organizations, NGOs and bilateral partners. Laos is a member of many important international organizations, such as the World Bank, FAO, IMF, ILO, and UNESCO. The Lao government has been responsive to advice from the UNDP and WTO but appears less cooperative with the UNHRC. Western partners have expressed frustration with the government on occasion, but relations are usually retained for broader strategic reasons.

During the COVID-19 pandemic, the government came to be seen as an open and responsive partner in health matters pertaining to the pandemic. However, the economic aspects of the crisis undermined confidence, given the frequency of warnings over fiscal and debt vulnerabilities.

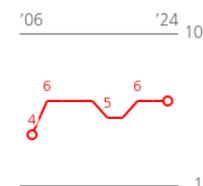
Laos joined ASEAN in 1997 and places a premium on its membership. Laos is also an enthusiastic member of the Asian Development Bank's Greater Mekong Subregion (GMS) scheme, which includes Yunnan province and the Guangxi autonomous region in China, as well as the mainland ASEAN states. It has embraced a number of "economic corridors" linking GMS members as a means of transforming Laos from a landlocked to a "land-linked" country. In 2015, Laos joined with its mainland Southeast Asian neighbors in the China-driven Lancang-Mekong Cooperation (LMC).

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 neighbors, especially China.

Because most relevant economic partners are either authoritarian governments or come from nondemocratic countries, Laos' political structure does not affect regional relations. Environmental concerns have received more attention, especially with regard to hydropower dams on the mainstream Mekong. The Lao government does not comply with previous agreements within the Mekong River Commission (MRC)

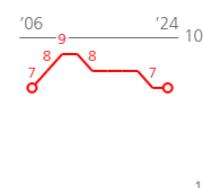
Credibility

6



Regional cooperation

7



and largely ignores protests from its downstream Cambodian and Vietnamese neighbors. This is perhaps one rare but significant bone of contention between the governments of Laos and Vietnam.

More generally, regional integration implies navigating between the political and economic interests of Laos' powerful neighbors China, Vietnam and Thailand. All three countries appear to agree on infrastructure investments in Laos for regional connectivity. Laos is careful to abstain from involvement in disputes such as those between China and Vietnam in the South China Sea.

The COVID-19 pandemic demonstrated both Laos' constructive neighborliness and the harmful sides of increased economic dependencies. Debt restructuring agreements are required to mitigate the current financial crisis facing Laos. However, there is no indication that countries like China would let Laos default, as its strategic location in the heart of the ASEAN region is of key importance for regional integration.

Strategic Outlook

Despite the ongoing financial crisis facing Laos, the Asian Development Bank (ADB) maintains a projection of moderate GDP growth of 3.5% in 2023. This is alongside a falling rate of inflation, potentially spurred by the devalued kip that could bolster exports. However, this forecast hinges on regional economic recovery and notably relies on China's debt-repayment deferrals, which comprise nearly half of the external public debt.

Addressing the macroeconomic imbalances in Laos, the World Bank's Economic Monitor in October 2022 advised a "firm political commitment to ambitious reforms." These pivotal reforms encompass cutting costly tax exemptions to bolster public revenues and safeguarding social spending, ongoing negotiations to restructure public debt, and enhancing financial sector stability through legal and regulatory measures. The World Bank also underscores the need for improved governance over public-private partnerships and state-owned enterprises (SOEs), and more broadly, for enhancing the business environment and driving exports via effective regulatory adjustments.

Positive indicators for economic revival in 2023 stem from the discontinuation of China's zero-COVID policy, projected to generate fresh commercial opportunities in Laos, especially in tourism, trade, and investment. On his appointment as new Prime Minister in early January 2023, Sonexay Siphandone vowed heightened endeavors to increase revenue collection and fortify the export sector in an address to the National Assembly.

The ongoing negotiations concerning debt restructuring with China will be indispensable in alleviating the prevailing debt crisis. Nevertheless, there is no indication of a decrease in Laos' economic reliance on China, quite the opposite. The Lao People's Revolutionary Party's (LPRP) commitment to resource-driven economic development will remain closely intertwined with Chinese investments and, by extension, economic prosperity. Additionally, the adverse social and environmental impacts of hydropower and mining initiatives will counteract any strides toward sustainable development.

Given its alignment with China and other nondemocratic regimes in the region, it is unlikely that the Lao government will eagerly respond to calls for economic or political reforms from the World Bank or other international bodies. Even if there are expectations that some macroeconomic vulnerabilities will be addressed in the future, the political elites in Laos are more inclined to safeguard their interests, upholding the undisputed rule of the LPRP.

Observing recent public unrest in China and internal power struggles within the Vietnamese communist party, the LPRP exercised particular caution in facilitating a seamless transition from incumbent Prime Minister Phankham Viphavanh to his deputy, Sonexay Siphandone, who was already anticipated to assume the role. The year 2024 will commemorate the 100th birthday of Sonexay's illustrious father, Khamtay Siphandone, the lone surviving member of the initial Lao politburo and a long-standing leader in the party-state. On this occasion, the LPRP is poised to underscore their political dominance, emphasizing unity and solidarity during times of adversity, and invoke the spirit of the "national liberation struggle" once again.