

BTI 2016 | Laos Country Report

	scale	score	rank	trend
Status Index	1-10	3.83	# 107 of 129	
Political Transformation	1-10	2.90	# 120 of 129	➔
Economic Transformation	1-10	4.75	# 86 of 129	➔
Management Index	1-10	3.67	# 104 of 129	

This report is part of the Bertelsmann Stiftung’s Transformation Index (BTI) 2016. It covers the period from 1 February 2013 to 31 January 2015. The BTI assesses the transformation toward democracy and a market economy as well as the quality of political management in 129 countries. More on the BTI at <http://www.bti-project.org>.

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Key Indicators

Population	M	6.7	HDI	0.569	GDP p.c., PPP \$	5320.4
Pop. growth ¹	% p.a.	1.6	HDI rank of 187	139	Gini Index	37.9
Life expectancy	years	68.2	UN Education Index	0.436	Poverty ³	% 63.3
Urban population	%	37.6	Gender inequality ²	0.534	Aid per capita \$	64.0

Sources (as of October 2015): The World Bank, World Development Indicators 2015 | UNDP, Human Development Report 2014. Footnotes: (1) Average annual growth rate. (2) Gender Inequality Index (GII). (3) Percentage of population living on less than \$3.10 a day at 2011 international prices.

Executive Summary

In the past two years in Laos, the ruling Lao People's Revolutionary Party (LPRP) has continued to pursue rapid economic growth while strengthening its power over the political sphere. The regime has benefitted from one of the highest levels of GDP growth in Asia, which has come about as a result of market reforms implemented since the 1980s. The regime has also tightened its grip on civil society through a crackdown that began in late 2012, adding to the impression that earlier reforms in this area have been abandoned.

In accordance with a five-year cycle, the LPRP congress last took place in 2011, as did the release of the National Socio-Economic Development Plan (NSED 2011-2015). Hence, no major changes to the regime's senior leadership or economic direction took place in the past two years. However, four senior party members – the deputy prime minister, the defense minister and number seven in the politburo, Douangchay Phichit, as well as Minister of Public Security Thongbanh Sengaphone – died in a plane crash in northeastern Laos in May 2014. Against some speculation, all evidence pointed to the crash having been an accident. The death of Major-General Douangchay, a potential party leader, is likely to have significant impact on the preparations for the next scheduled congress in 2016.

The LPRP sought to strengthen its authority through its “3-Builds” (Sam Sang) directive, a decentralization program aimed at reinforcing central control through resource management and revenues on a province, district, and village level. The directive resulted in an increased number of government meetings, from the national level down, characterized by some rhetoric urging toward the achievement of development objectives previously set: the liberalization of the agricultural sector, the emancipation from the status of Least Developed Country (LDC) by 2020 and the implementation of off-target aspects of the U.N.'s Millennium Development Goals.

Party leaders furthermore urged tighter control over civil society organizations in the face of alleged but unsubstantiated efforts to undermine the party. In the wake of community leader

Sombath Somphone's unexplained disappearance in late 2012, the deplorable investigation of which attracted condemnation from around the world, increased pressure on civil society organizations produced levels of fear and self-censorship reminiscent of a more oppressive past. In this context, leaders' ongoing claims to be strengthening the rule of law – another rhetorical theme in Laos – continued to fall flat.

In terms of economic transformation, sustained investment in hydropower, mining and commercial agriculture resulted in a GDP growth of approximately 8% per year, a rate the government has more or less maintained since 2005. During the period under review, GDP has multiplied four-fold from \$2.7 billion to over \$11 billion (in 2013), an increase that has lifted large numbers of people out of poverty. In 2013-14, the government poured some of this growth into long overdue increases in public sector wages and allowances. Expansionary policy produced a large fiscal deficit, although this seemed to be under control by the end of 2014.

Resource-intensive growth measures continue to come at significant social and environmental cost. Most notably, fishery experts argued that the planned Don Sahong Dam near the Cambodian border, the second on the mainstream of the lower Mekong, would result in a massive reduction of fish stock. Facing strong opposition from Cambodia, Vietnam and Thailand, the government attempted to circumvent and then ignored mandated consultations with fellow members of the Mekong River Commission necessary for the planning of mainstream dams. In early 2015, the project looked set to proceed. Inadequate compensation payments for compulsorily acquired land also continued to cause controversy and the issue received more attention in the National Assembly. Such tensions are frequently related to corruption, a growing problem however much rhetorically condemned by leaders.

History and Characteristics of Transformation

The Lao People's Revolutionary Party (LPRP) came to power in 1975 as a Marxist-Leninist regime modeled on that of the Democratic Republic of Vietnam. One of its first acts was to replace multiparty parliamentary system with a system of "democratic centralism." It also removed the king, who had been an integrative figure for the nation, particularly the Buddhist Lao that make up about half of the country's multi-ethnic population. In theory, each level of the party, from the bottom up, elects delegates to the next level, but in practice, those controlling the higher level co-opt the delegates they want. Tightly controlled elections for a National Assembly have been held since the promulgation of a constitution in 1991 (amended in 2003), but the overwhelming majority of candidates are LPRP members and those who are not are likely to be screened by the party. No subsequent transition to democracy has occurred, nor is one likely in the foreseeable future.

Upon coming to power, the LPRP also transformed the economy along socialist lines. They nationalized industry and financial institutions and encouraged the formation of agricultural

cooperatives. Peasant opposition and collapsing production forced the party first to modify its hard line in 1979, then in 1986 to embark on a reform program known as the New Economic Mechanism (NEM), which set in motion the transition from a centrally planned to a free-market economy. Co-operativization was abandoned, restrictions on internal trade were removed and a free market was introduced for agricultural produce. The government also liberalized international trade and sought foreign investment. As in China and Vietnam, but unlike the Soviet Union, this transition to a market economy took place without any corresponding political liberalization. The changes in Laos were driven by the party's powerful secretary-general, Kaysone Phomvihane, who, with Vietnamese support, won the party's backing despite pockets of internal opposition.

An array of supporting measures were introduced over the next decade: the elimination of microeconomic constraints limiting private production; legislation to encourage foreign direct investment (FDI), including a legal framework of commercial, trade and labor laws; closer attention to macroeconomic stability (improved budgetary and monetary policy, reduced state subsidies, civil service cuts and a new tax framework); and the privatization of most state-owned enterprises (SOEs), with the exception of about 20 that were designated as "strategic." By the mid-1990s, these measures were producing their desired economic effect of improving resource allocation and spurring economic growth. Growth levels were a misleading indicator, however, as the country was highly dependent on official development assistance (ODA), especially for infrastructure development.

In 1998 and 1999, the Asian economic crisis hit Laos. Though the country was initially spared much of the economic fallout experienced elsewhere in Southeast Asia, the political decision to dispense with budgetary restraint led to sudden inflation and a slowing of growth that shocked the party leadership. Further reforms toward a market economy were either put on hold or reluctantly agreed to and then not implemented, much to the frustration of international donors pressing for reform.

These stop-and-go reforms have remained the pattern over the past decade. As investment has steadily picked up, especially in hydropower, mining, plantation agriculture and tourism, economic growth has surged by an average of 8% per annum since 2005. This period of prosperity has coincided with a growing culture of corruption, encouraged by the example of senior political figures, who have increased their power by building patronage networks oiled by the plunder of state resources. Especially in the provinces, public money has been used for private gain, which has complicated center-province relations. Although anti-corruption legislation has been enacted, no senior political figure has yet been prosecuted.

The global financial crisis of 2008/09 reduced the quantity of FDI originating from the West, but this was soon replaced by increased investment in plantation agriculture, mining and hydropower from Asian nations, especially Thailand, China and Vietnam. Those Lao still practicing subsistence agriculture (close to half the population) were largely unaffected by the global economic downturn. In urban areas, rising unemployment encouraged increasing numbers of

young people to seek work in Thailand, but economic growth soon rebounded strongly. None of these events threatened the ruling party's hold on power.

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

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

Transformation Status

I. Political Transformation

1 | Stateness

Question
Score

The ruling Lao People's Revolutionary Party (LPRP) has maintained its monopoly on the use of force over the past two years. Hmong insurgents who opposed the regime after 1975 have been all but eliminated; others gave up long ago. There has been no recurrence either of bandit-like attacks on road transport or the series of small bomb blasts in Vientiane and the south of the country that were seen between 2002 and 2005. Foreign-owned plantation business interests utilize private security services, some of which are known to be heavy-handed, but they are not thought to threaten the state's monopoly on force.

Monopoly on the
use of force
9

Laos is the most ethnically diverse country in Southeast Asia. Under the former regime, the population was roughly divided into "Lao of the plains," "Lao of the hillsides" and "Lao of the mountain tops," depending on language, culture and location. After initially adopting the same construction, which aimed to eliminate racist terminology and express that all were citizens of the Lao state, the present regime adopted language as the principal distinguishing criterion. Both the nationality and the "race" (noted on identity papers) of all 49 different ethnic groups officially recognized in the 2005 census is "Lao." Chinese and Vietnamese of Lao nationality are not considered of Lao "race," though they enjoy the same constitutional civic rights and responsibilities possessed by other citizens. Members of the Lao diaspora are of Lao "race," but not nationality. Laos does not recognize dual nationality, but Lao with foreign citizenship may invest and live in Laos.

State identity
8

The Lao state is secular and laical, but in many respects, the leadership has taken on the role of protector of Buddhism, before 1975 attributed to the monarchy. About two thirds of the population adhere to Theravada Buddhism, while most of the remainder is oriented toward local, ethnic religions, colloquially called "spirit religion". Christians (around 2%) and Muslims are a minority. While the country officially endorses religious freedom, non-Buddhist proselytism is closely surveilled, and those converting to Christianity are occasionally prosecuted. However, this is less

No interference of
religious dogmas
10

motivated by religious issues rather than by fear of foreign (Western) influence. While Buddhism, Christianity and Islam are respectively recognized as a religion, “spirit religion” is not, and the term is not an official category. National identity construction and state ritual show a clear Buddhist bias. However, this has not led to ethnic conflict or ethnic revivalism in any significant form, and there is no discrimination of non-Buddhists by law or political institutions. Non-Buddhists do have access to high-ranking positions. In 2011 Pany Yathortou, a Hmong member of the Politburo, was named president of the National Assembly. Lao officials reportedly still discriminate against rural ethnic minorities, and resentment over minority rights and resettlement still works against a full identification of some minorities, but the regime has altogether rather effectively integrated minority groups and promoted inter-ethnic solidarity.

The party-state structure extends throughout the country, from national to provincial, district and village levels. Appointments are made, or at least directed, by higher levels in the party-state structure. Given that the two institutions of party and state are largely parallel, almost all officials in positions of authority are members of the LPRP. Regionalism remains strong and provinces assert a degree of autonomy both in their economic relations with neighboring countries and in their relations with the central government (which at times struggles to enforce new policies in the provinces, or to extract tax revenue from them). Law is enforced through a system of courts that reaches to the district level, but minor infringements are often dealt with through conciliation at the village level. New legislation is poorly disseminated and understood by bureaucrats and citizens, but this is slowly improving. Service delivery (health, education) in the rural areas is poor and often dependent on international aid. Though access to improved sanitation and water sources remains relatively poor, it has increased markedly over the past decade (to 65% and 72% respectively in 2012 compared to 37% and 53% in 2003). Transportation and communication links in remote areas, however scarcely spread, are also slowly being improved.

Basic
administration

7

2 | Political Participation

Elections for the National Assembly are held every five years, most recently in April 2011, but the Lao constitution defines the LPRP as the “nucleus” of the political system and no other political parties are permitted. Besides a few independents, all candidates are party members and all (including the independent ones) are vetted by the party-controlled Lao Front for National Construction (LFNC). Thus, although all citizens over the age of 18 are eligible and required to vote, power remains firmly in the hands of the party, which determines all policy matters and the legislative program. Voters do have a choice of candidates but the number of independent candidates allowed to run is too small to threaten party domination. Although some candidates campaigned quite vigorously on local issues in 2011, none raised any but

Free and fair
elections

1

mild criticism of the government, which reflects the dominance of the National Assembly. In fact, all but two of the elected deputies were themselves public servants. Nor was there any critical discussion of any of the entirely party-controlled media outlets. No elections take place at the local level, neither of provincial or municipal administrations, nor of district or village heads, though the latter may be selected through communal approval.

Laos is a one-party state and the party leadership, not the elected members of the National Assembly, are the political decision-makers. Potential veto players are either central components of the political structure, as in the case of the military, or have been agreed on as key partners of it, as in the case of entrepreneurs. Indeed, as the economy continues to grow, it plays an increasingly important role in the Lao political sphere, and entrepreneurship struggles if lacking the relevant political connections. Increased debate in recent years in the elected National Assembly does not equate to political openness or even a modest form of “semi-democracy.” A “National Assembly Hotline” that enables citizens to voice grievances, e.g. over land rights, although no formal guarantee for participation, has increased government awareness of issues of public concern.

Effective power to govern

1

Although the right and freedom of speech, press and assembly is theoretically guaranteed under Article 44 of the amended constitution (2003), rights of association are extremely limited and tentative steps toward the emergence of a Lao civil society sector have stalled. There are no opposition political parties; nor is there freedom of assembly. Organized public protests and demonstrations are therefore rare. When they do occur, organizers and participants are typically arrested and imprisoned for lengthy periods. Despite the 2009 Decree on Associations, an important reform in terms of developing civil society, Non-Profit Associations (NPAs) have little choice but to retain close relations with the state. Since the 2012 enforced disappearance of Sombath Somphone, a respected civil society leader, government leaders have targeted civil society in speeches, further diminishing the ability of such organizations to operate independently. Late in 2014, the government introduced additional guidelines that tighten the regulation of international NGOs’ operations.

Association / assembly rights

1

Media organizations in Laos are controlled by the LPRP through the Ministry of Information and Culture. Although independent lifestyle magazines have appeared in the past decade, a new media law presented to the National Assembly in July 2008 has not reduced government control over political coverage. Opinion cannot be freely expressed in any public forum, nor through public protests or demonstrations, given their effective proscription. Although National Assembly members are now encouraged to discuss development issues, their freedom of speech is limited, even though private criticism of the government is tolerated. While the emergence of small information-sharing groups suggests that the Internet may serve as a medium of political expression, pervasive self-censorship has restricted its capacities in such a function. In 2014, moreover, the government moved to extend its control over

Freedom of expression

1

expression through internet communication. While large parts of this decree were unremarkable, provisions seeking to protect the LPRP and the nation's peace, independence, sovereignty, democracy, and prosperity replicated existing laws that govern freedom of expression, and were open to broad interpretation and abuse. Together with technology previously provided by China to censor online communications, such regulations will almost certainly limit any future benefit of the Internet for the development of Lao civil society.

3 | Rule of Law

The Lao constitution outlines a formal separation of powers between the legislative (National Assembly), executive and judicial arms of the state, but in fact, all remain subject to the ruling LPRP, whose leaders can and do override constitutional provisions. As a result, no checks and balances apply between the three institutions of government. Moreover, there is no constitutional court to judge the validity of legislation.

Separation of powers

1

The judiciary is institutionally differentiated but is not independent of the ruling party. Most judges and senior officials from the Ministry of Justice are party members. Bribery is widespread, especially in civil and commercial cases, and political connections often prove decisive. In keeping with the objectives of the UNDP-funded Legal Sector Master Plan, the government frequently reiterates its commitment to making Laos a "rule of law state" by 2020, and the National Assembly has passed a growing body of laws. However, few of these are widely known or applied and other areas related to the plan, such as the implementation of human rights protection, show no sign of progress. Thus, despite some apparent legal engagement, the rule of law functions primarily as a discursive device legitimating state power.

Independent judiciary

2

A body of professional lawyers, who may represent clients in court, is slowly being formed. The Lao Bar Association serves as a regulatory body and provides legal education, training and advice through its legal aid program. The association is not an independent body, however, as it remains under the supervision of the Ministry of Justice.

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

Prosecution of office abuse

2

In recent years, corruption has triggered popular resentment and public discussion. At the only level of administration where the populace actually has a choice, that is, with village headmen, popular disapproval of corruption has been occasionally expressed by dismissing even long-standing office holders. Additionally, the need to combat corruption has been noted in the National Assembly and discussed in the press. However, the press does not investigate cases of corruption, names are never mentioned in the media and prosecutions are rare and never publicized. The worst that has happened to blatantly display corruption among officials would be their removal from office. Moreover, such punishments often stem from intra-party politics rather than relating to a case of corruption.

Although civil rights are in principle protected by the Lao constitution, widespread violations occur. Rights of assembly and the free expression of political beliefs are nonexistent. Religious freedom is officially guaranteed but is limited in practice where authorities believe religious differences may exacerbate ethnic divisions. For example, reports in late 2014 alleged further clampdowns on ethnic minority Christian proselytizers. Furthermore, abuses are known to occur at the hands of the security forces and in the prison system. Since there is no likelihood that an appeal against a violation of civil rights will produce a result, few formal complaints are made.

Violations of civil rights disproportionately affect the poor and powerless in rural areas, where foreign companies (particularly from China and Vietnam) have obtained substantial land concessions from central and provincial governments. In an increasing number of documented cases, both ethnic Lao and minority groups have been left with little choice but to make way for plantation forestry, agricultural and hydropower projects. Concerns over land-use policies and inadequate compensation have been voiced along local protests, international meetings such as the Asia-Europe People's Forum (AEPF) in late 2012, and even by the National Assembly, but authorities typically take measurements against dissenters. Since the disappearance of Sombath Somphone in late 2012, presumed to have been abducted by members of the Lao security forces, the self-regulation of civil society organizations has increased, and public political sphere waned.

4 | Stability of Democratic Institutions

As a single-party Marxist-Leninist state, political power in Laos is monopolized by the LPRP. Although it has become more outspoken in recent years, the National Assembly is not democratically elected and is entirely dominated by the party, as are all levels of government and administration. In practice, the judiciary is also a party instrument. According to the official creed of "democratic centralism," the views of grassroots party members are supposed to be channeled up the party hierarchy for the central committee to include in policy formulation. In reality, power runs from the

Civil rights

3

Performance of
democratic
institutions

1

top to the bottom, and decisions by the party leadership must be accepted. While the 5-yearly congresses of the LPRP, next due in 2016, provide an opportunity for policy reform, the prospects of democratization remain as minor as they were in the past.

There are no democratic institutions in Laos as all political and state institutions are part of the socialist, party-dominated “party-state.” Any attempts by Western governments to urge reforms that would lead to multiparty democracy are vigorously resisted, for they are interpreted as creating conditions for regime change. In adopting this position, the LPRP has powerful support from the communist parties of both Vietnam and China, both of which enjoy close relations with the Lao regime.

Commitment to democratic institutions

1

5 | Political and Social Integration

There is no party system in Laos: the sole political party is the LPRP. The ruling party is stable, well institutionalized and deeply rooted in Lao society. Nothing that has happened over the last two years has threatened the stability of the party or its hold on power. In 2011, party membership was estimated at 191,700, or 3% of the population. Membership is attractive to those who are politically ambitious and to those who seek to tap into networks of influence. The party actively recruits members from among the educated elite, and even some businessmen are party members.

Party system

1

Independent organizations were not permitted until recently in Laos, and most interest groups continue to function under, or in close cooperation with, the party. The party’s mass organizations include the Lao Federation of Trade Unions, Lao Women’s Union, Lao People’s Revolutionary Youth Union and Lao Front for National Construction, which includes representatives of ethnic minorities, religious organizations and professional associations such as the Lao Bar Association and the Lao Chamber of Commerce. Social and economic interest groups (teachers, health workers, business people) are represented at party forums by virtue of a party membership, not as interest groups per se.

Interest groups

1

The 2009 Decree on Associations permitted the formation of Lao NPAs. Although NPAs must satisfy onerous regulatory processes and continue to work closely with the government, this reform was significant since it promised the emergence of a formal non-state sector for the first time since 1975. Yet, despite the registration by late 2012 of over 50 NPAs – and the probable existence of a similar number of unregistered ones – the outlook remains unfavorable. Since the harassment and intimidation of those associated with the AEPF in late 2012, the environment in which civil society organizations operate has become even more restrictive, and they have little choice but to work according to strict parameters set by the government. In 2014 new draft guidelines mooted tighter regulation of international NGO

operations, which due to the lack of domestic alternatives have historically played an important, however limited, role in nurturing local civil society.

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, it cannot be assessed how strong the approval of democratic performance and institutions in Laos is.

Approval of
democracy
n/a

Although survey data in this matter does not exist, a relatively high level of trust in family structures can be assumed at village level. Trust may also extend to patronage networks, members of the same ethnic group (among ethnic minorities), and people from the same region (among the lowland Lao), but not to the wider society. After the 1975 revolution, non-state social organization was not permitted, except in cases of spontaneous village cooperation, and all formal activities were channeled through the party's mass organizations and state bodies. While social relations have improved markedly since the days when state regulation and surveillance corroded trust and cooperation, conditions for autonomous organization have remained highly restrictive. Despite the promise of the 2009 Decree on Associations, confinements of civil society activities have created fear and distrust since 2013, reminiscent of Laos's more oppressive past.

Social capital
4

II. Economic Transformation

6 | Level of Socioeconomic Development

Question
Score

According to UNESCAP and UNDP surveys, Laos has made significant progress toward achieving the Millennium Development Goals. Poverty levels – both absolute and relative – have been reduced. The Lao regime proclaims its support for both ethnic and gender equality but, in both cases, inequality is structurally ingrained. In particular, poverty, poor infrastructure and weak government services in remote and mountainous parts of the country continue to put ethnic minorities at a disadvantage. Yet, in contrast to some South Asian countries such as India, the inequality between different social or ethnic groups is not culturally ingrained, and does not impede some significant vertical and horizontal social mobility.

Socioeconomic
barriers
4

Backed by the World and Asian Development Banks, the government has thus committed itself to a long-term poverty reduction program aimed at lifting the country out of its least-developed country status by 2020. In 2013, the Lao PDR's Human Development Index score stood at 0.569, ranking Laos 139th out of 187 countries (a position it maintains since 2011).

Poverty has fallen but remains widespread in rural areas. Between 2002 and 2012 (the latest year for which figures are available), the percentage of the population surviving on less than \$2 a day fell from 76.9% to 62%. Bolstered by foreign aid and burgeoning FDI, per capita GDP rose to \$4,812 (PPP) in 2013, but in practice, this growth was concentrated in the national and provincial capitals. Between 2002 and 2012, the Gini coefficient of income distribution worsened from 32.6 to 36.2, although the 2013 figure represented a slight improvement since 2008 (at 36.7). Additionally, gross corruption has concentrated wealth in the hands of a relatively small political elite. Even accounting for remittances from rural migrants seeking employment abroad, especially in Thailand, the rural-urban divide continues to be the greatest structural barrier to decreasing disparities in wealth and living standards.

Although Laos's Gender Inequality Index worsened markedly from 0.496 to 0.534 between 2012 and 2013, positioning it 118th out of 152 countries (compared to 100th out of 148 in 2012), the reality of gender exclusion is mixed. On the one hand, women make up 50% of the labor force (a figure that has been stable for a decade), are expected to live longer than men (70 years compared to 67) and won a quarter of the seats in the National Assembly in the 2011 elections, a relatively high number for the region. On the other hand, the ratio of female to male enrollment remains 94.5%, 87.3% and 82.5% at primary, secondary and tertiary levels respectively, despite steady improvements, and female adult literacy remains significantly lower than male (70% vs. 85%).

Economic indicators		2005	2010	2013	2014
GDP	\$ M	2735.6	7181.4	11189.5	11771.7
GDP growth	%	7.1	8.5	8.5	7.5
Inflation (CPI)	%	7.2	6.0	6.4	4.1
Unemployment	%	1.4	1.4	1.4	-
Foreign direct investment	% of GDP	1.0	3.9	3.8	-
Export growth	%	19.7	24.9	4.0	16.3
Import growth	%	6.1	2.6	2.9	15.2
Current account balance	\$ M	-173.8	29.3	-376.1	-
Public debt	% of GDP	85.0	62.1	60.1	62.5
External debt	\$ M	2912.2	5722.7	8615.2	-
Total debt service	\$ M	132.7	305.4	303.4	-

Economic indicators		2005	2010	2013	2014
Cash surplus or deficit	% of GDP	-	-0.8	-	-
Tax revenue	% of GDP	-	12.9	-	-
Government consumption	% of GDP	8.1	9.5	14.5	13.8
Public expnd. on education	% of GDP	2.4	2.8	-	-
Public expnd. on health	% of GDP	0.7	1.0	1.0	-
R&D expenditure	% of GDP	-	-	-	-
Military expenditure	% of GDP	0.4	0.2	-	-

Sources (as of October 2015): The World Bank, World Development Indicators 2015 | International Monetary Fund (IMF), World Economic Outlook, October 2015 | Stockholm International Peace Research Institute (SIPRI), Military Expenditure Database 2015.

7 | Organization of the Market and Competition

Since the 1980s, Laos has made considerable progress in moving from a command to market-based economy. Prices are now set by the market, the Lao kip is convertible and profits from foreign investments can be transferred abroad. But competition operates within a relatively weak institutional and regulatory framework. When disputes arise, the legal system fails to provide businesses with protection against those with powerful political connections. Likewise, while efforts have been made to provide foreign businesses with certainty, they remain vulnerable to arbitrary decision-making and collusion between local business and political interests. Moreover, the government retains ownership of what it considers to be “strategic” enterprises. The informal sector of the economy is significant.

Market-based
competition
5

The Decree on Trade Competition (2004) provides a rudimentary framework for regulating competition and monopolies, but the Trade Competition Commission it envisaged has not yet materialized. Regulations can often be circumvented through political contacts and a number of expanding business groups depend upon political connections. While most state-owned enterprises (SOEs) have been sold off or otherwise privatized, the government retains control of those it considers “strategic” or essential for national development. These tend to be monopolistic, though this is changing in some sectors including telecommunications and aviation.

Anti-monopoly
policy
3

Laos has steadily moved to liberalize foreign trade since the mid-1980s, and has become broadly integrated into regional and world markets. Tariffs were first reduced in order to meet the requirements of the ASEAN Free Trade Area (AFTA). Throughout the process of joining the WTO in 2013 (having applied in 1997), Laos has undertaken a number of important reforms in areas such as taxation, foreign exchange, investment, and import and export procedures. There will be costs as well

Liberalization of
foreign trade
8

as benefits associated with joining the WTO, however, with the former to be carried disproportionately by the agricultural sector.

The next phase of deregulation is that associated with the promulgation of the ASEAN Economic Community (AEC) in late 2015. By the end of 2013, Laos had reduced 79% of goods covered by the region-wide Common Effective Preferential Tariff (CEPT) to zero, with further reductions to come as part of that process. Tariffs of 5% will be retained in 266 products considered “sensitive”, most of which are agricultural commodities. In addition, Laos has nominated 87 product categories for exemption (with tariffs of between 5% and 40% to apply) under the CEPT’s general exemption category for products considered of national strategic or cultural value. It is considered that reforming non-tariff barriers will be much more difficult, although data on that matter remains to be collected, particularly regarding certain key exports such as timber.

Legislation governing the Lao banking system is oriented toward international standards and the government frequently reiterates its intention not to be involved in quasi-fiscal activities. However, a considerable degree of political interference remains, for instance the financing of state-owned enterprises by state-owned commercial banks (SOCB). Having twice been restructured and refinanced because of nonperforming loans, the SOCBs have demonstrated improved performance over the past decade. Yet the overall bank loan-to-deposit ratio increased from 85% in June 2012 to almost 100% in September 2013. The level of nonperforming loans more than doubled from 4% at the end of 2012 to 8.2% in June 2014, despite dropping below 3% in the interim. The World Bank has previously attributed this raise to an overall increase of credit growth, though 13% of credits granted to SOEs in the fiscal year of 2012/13 suggest some political interference in determining loan eligibility to be an additional factor.

Several foreign banks have had branches in Vientiane, the nation’s capital, for some time. More recently, there has been a pronounced expansion in the sector, with the establishment of additional Lao-foreign joint ventures and Lao private banks. With the rapid expansion in credit, the World Bank has continued to urge stronger supervision of the banking sector and enforcement of prudential norms. Despite the Bank of Laos’s strengthened enforcement of compliance with the latter, some banks are struggling to perform satisfactorily and meet the minimum capital-to-asset ratio requirement. Laos has also developed a modest capital market. In January 2011, the Lao Securities Exchange opened for business in Vientiane with two listed companies, though only two more companies were added between 2013 and January 2015. In May 2013, Laos undertook its first bond issuance on the Thai bond market, amounting to \$50 million (about 0.5% of GDP), in order to finance the general public investment program.

Banking system
5

8 | Currency and Price Stability

Lao monetary policy over the past decade indicates that the government is aware of the importance of keeping inflation under control. After annual inflation hit 110% in 1998-1999 – when the government, for political reasons, attempted to spend its way out of the Asian financial crisis – the government embarked upon a macroeconomic stabilization program. Inflation was reduced to an average of 15% between 2000 and 2003 and has remained under 10% since 2007. Since falling to zero in 2009, in the wake of the global financial crisis, annual inflation has fluctuated between 4.3% and 7.6%.

Anti-inflation /
forex policy

7

The central bank of the Lao PDR is controlled by the state. The bank oversees a managed floating exchange rate, aimed at maintaining nominal exchange rate stability against major currencies. The official exchange rate tracks the free-market rate, a policy the party maintains. The real effective exchange rate appreciated by 5.7% in 2013, the fourth continuous year that it did so, implying loss of competitiveness for Laos's tradable goods. As a result, the World Bank urged greater exchange rate stability.

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

Macrostability

5

While the government's fiscal consolidation policies of 2013-14 were projected to improve macrostability, budgetary management worsened over the review period. Despite lower mining receipts, non-resource income has maintained government revenue at around 19.5% of GDP since 2012, up from 16.5% in 2010. However, large (if overdue) increases to public wages and allowance pushed government expenditure as high as 25.3% of GDP in 2013. As a consequence, the fiscal deficit rose to 6% in 2013, prompting the World Bank and IMF to sound alarm bells and the government to scale back further increases. With this and other measures, the government reduced forecast spending to 22% of GDP in 2014, in turn reducing the deficit to 4.5% (FY 2013/14). External public and publicly guaranteed debt (PPG) increased from 44.8% to 46.1% of GDP in 2012. The corresponding net present value of PPG rose from 29.8% to 32% of GDP. Although this was below the IMF's indicative threshold of 40%, permitting the Joint IMF-World Bank Debt Sustainability Analysis (DSA) of 2013 to keep the country's risk of debt distress "moderate", the DSA 2013 noted that higher projected borrowing in the near term would move the debt-to-GDP ratio closer to thresholds and expose the country to adverse shocks. Foreign exchange reserves

fell to approximately \$600 million in 2012, equivalent to just 1.3 months of imports of goods and services.

9 | Private Property

Although the Lao constitution theoretically protects property rights, all land is formally owned by the state and can be expropriated for state purposes. A land-titling program has been underway in some larger towns, and is slowly being extended into the countryside. False and disputed claims can in theory be resolved in a court of arbitration, but are more often settled through payment of bribes to relevant officials. According to the World Bank, property registration processes are (with an average of 98 days) among the world's slowest.

Property rights
3

In rural areas, families possess user rights to agricultural land, which are transferable and heritable. Communities may also exercise traditional rights to non-agricultural land, including those ethnic minorities who practice shifting slash-and-burn farming. As foreign demand for land agricultural concessions has increased, authorities have often disregarded these traditional rights. As a result, land issues remain one of the principal areas of injustice and contestation in Laos today. The matter has been raised increasingly in the National Assembly, as well as by the weak civil society sector.

Laos permits both domestic and foreign-owned private companies to operate, but state interference trumps market principles and the playing field is not level. Most state-owned enterprises have been privatized, but those the government considers to be of strategic importance remain in state hands, including electricity and water. Private enterprise has added to competition in sectors such as telecommunications and aviation. More generally, the state or state leaders often retain a substantial degree of informal control over enterprises that are formally privatized. Government contracts are awarded to private companies that have political relationships with high-ranking party members. In other words, there remain close links between private economy and the party, even where the two are ostensibly separate. Commercial projects sometimes have difficulty getting off the ground without such political support, not least due to the difficulty of accessing formal credit. Foreign companies sometimes pay substantial sums for such patronage.

Private enterprise
5

10 | Welfare Regime

Laos has no comprehensive social security system to alleviate poverty and health insurance schemes cover only a small fraction of the population. The only aged or invalidity pensions are those provided by the Ministry of Labor and Social Welfare to veterans who fought on the revolutionary side in the civil war. Eradicating poverty is the primary objective of both the National Growth and Poverty Eradication

Social safety nets
3

Strategy (2004) and the latest NSEDP (2011-2015). Although poverty is certainly falling, implementation of these strategies has been patchy. Increased state revenue is improving livelihoods through increased wages for civil servants and funding for social programs, but an effective social safety net is still a long way off. Health spending is inching up but remains extremely low (1.5% of GDP, 2012). Life expectancy at birth is also improving gradually, with figures rising from 63.4 years in 2003 to 67.8 in 2012.

The Lao government recognizes that some segments of the population, notably geographically remote ethnic minorities, face significant disadvantages. It has thus introduced measures to alleviate poverty in mountainous parts of the country, including a resettlement program, which is regulated by political and security concerns of the regime. Additional programs designed to improve living conditions for ethnic minorities are inadequate in scope and open to abuse by local officials. Only the small-scale networks of kinship, village, ethnicity, and patronage work effectively for providing any social safety.

Although, in principle, all Lao – including women and ethnic minorities – have equal opportunity to access education, public office and employment, the reality is mixed. While women make up 25% of the current National Assembly, their representation is one of limited power. The Lao Women’s Union remains well organized and influential (and is perhaps one of the more important “front organizations” of the party), but there is just one woman (among 11 members) on the all-important LPRP politburo and there are five (among 61) on the LPRP’s crucial central committee. In addition, women are severely underrepresented in second- or lower-level positions of the party-state, such as governor posts or mid- to high-level administrative positions.

On the other hand, government policies are narrowing the gap between male and female access to education and literacy (70% compared to 85%), and the female labor force participation rate (77.7% compared to 78.9% for men) is one of the highest in the region.

Ethnic minority populations also have poorer access to education than the ethnic Lao-Tai majority, a problem that is multiplied for girls from ethnic minorities. However, the party and the army both target ethnic minorities for recruitment. Indeed, almost half (5 of 11) of the Politburo falls into this category. Still, the prevailing political culture puts ethnic minorities at a disadvantage. Powerful party members build patronage networks of loyal followers who benefit accordingly. Scholarships, jobs in the public service and promotions all depend on whether support can be obtained from a powerful patron. Those without such connections are at a disadvantage, no matter how talented they may be. In sums, equality of opportunity is at all levels of the political system constrained by the dependency on party membership, which is becoming more problematic as a cadre-led capitalism emerges.

Equal opportunity
5

11 | Economic Performance

Strong and stable economic growth, averaging at almost 8% per annum since 2007, boosted annual output to \$11.1 billion in 2013, up from \$9.4 billion a year earlier. Meanwhile, per capita income (PPP) has doubled in the past decade to \$4,812. Most growth over this period has occurred in the industrial sector (notably hydropower and mining), though the resource sector's share of GDP growth has decreased since peaking in 2010. Expansion in the agriculture, construction and manufacturing sectors has also helped to drive growth since 2012. Although inflation has hovered between 5% and 7% over the last two years, lower inflation on food eased the headline figure in 2013 to 4.3%.

A major driver of GDP growth has been foreign direct investment (FDI), particularly from Vietnam, Thailand and China, and particularly in the hydropower and mining industries. Annual FDI more than doubled from approximately \$800 million in 2010 to \$1.74 billion in 2013 and was expected to hit almost \$2 billion in 2014. Capital imports associated with the construction of large resource projects, including the controversial Xayabury hydropower dam on the Mekong River and the Hongsa Lignite power project, widened the external current account deficit from 15% of GDP in 2012 to about 21% in 2013. This was offset by the capital account balance, however, and the balance of payments for 2013 was a small deficit of 1.3% of GDP.

The budget balance worsened considerably since 2013, largely due to an increase of the public sector wage bill by more than 100%. Although revenues also increased, they did so more slowly and the budget deficit reached 6% of GDP in 2013, pushing total public debt to 63.5% of GDP. No reliable statistics are available to account for unemployment rates, but current estimates of 2.5% would appear to be conservative.

12 | Sustainability

Despite signing relevant international conventions, the Lao government takes little heed of environmental concerns. It has set aside 17 National Biodiversity Conservation Areas (covering just over 10% of the national territory), where both flora and fauna are nominally protected, but logging controls are enforced sporadically, especially where the military and others with links to the state are involved. Typical of the priority placed on growth is the development of hydropower projects on the mainstream of the Mekong River. Following the continued construction of the Xayabury Dam, the most recent project is Don Sahong Dam, situated just kilometers off the Cambodian border despite deep concerns raised by Cambodia, Vietnam and international environmental NGOs over the dam's potential impact upon fishery stocks. The government does express environmental concern over the swidden practices of primarily ethnic minorities, and has a policy in place of

Output strength

7

Environmental
policy

3

resettling them in locations where their agricultural practices can be controlled more closely. However, this effort has served as much as a means to protect Laos's dwindling forests as to exert state control over minorities.

Although it has made some progress, the Lao government has failed to make education a national priority and the quality of education at all three levels remains low. The country's gross primary school enrollment ratio increased from less than 110% in 2005 to 122% in 2012, placing the country well ahead of the average for similar (lower-middle income) countries, but the secondary (46.5%) and tertiary (16.7%) figures lag far behind. Public education spending increased from 2.3% of GDP in 2008 to 2.8% in 2010, a figure still lower than before the global financial crisis in 2007 (3.1%) - updated figures may show some improvement when they become available. As a percentage of the budget, education expenditure increased slightly from 12.2% in 2008 to 13.2% in 2010, however equally low, with 16.9% measured in 2007. With the growth of the economy, increases since 2008 are not insubstantial, but non-wage recurrent spending accounts for only 3-7% of education spending (compared to 20% overall). Thus, while teachers are poorly paid despite recent wage increases, funding for textbooks, equipment and teacher training is even more deplorable. Education attracts significant funds from foreign donors. A few private schools operate, especially in the capital, Vientiane, where they predominantly offer courses in language (mainly English), business (management, accounting) and information technology. Investment in research and development is nonexistent.

Education policy /
R&D
3

Transformation Management

I. Level of Difficulty

Historically, the greatest structural constraint on effective governance in Laos has been geography. Not only landlocked, the country is mountainous in the north and east, while waterfalls on the southern frontier make navigation down the Mekong River to Cambodia impossible. Infrastructure has been poorly developed, aggravating communication with all neighboring countries except Thailand.

Structural
constraints

6

In the past two decades, however, the Asian Development Bank's Greater Mekong Subregion scheme, within which Laos is strategically situated, has greatly helped to improve regional integration. Laos now promotes itself as "land-linked" rather than landlocked. Major roads cross the country, linking Thailand and Vietnam in an east-west direction, and China and Thailand along a north-south corridor. An ever-increasing number of bridges span or are planned for the Mekong River's Lao reaches, including the first Lao-Myanmar Friendship Bridge, the construction of which commenced early in 2013, and the fourth Thai-Lao Friendship Bridge between Houay Xai (Laos) and Chiang Khong (Thailand), which opened late in the same year. Navigation on the river itself has been improved and, while details remain incomplete, the Lao government has committed to building a railway from the Chinese border to Vientiane, where it will link with another new line in Thailand that forms part of a planned Kunming-Singapore network.

Another significant constraint is the low level of human resource development. Educational levels and literacy rates are below ASEAN averages. Poverty rates remain high, especially in rural areas, with 30.3% of the population below the U.N. income poverty level of PPP \$1.25 per day in 2012. HIV/AIDS infection rates, though low by international standards, remain a concern, while malaria and tuberculosis continue to take their toll.

Ruled by an authoritarian one-party state for almost four decades, Laos does not enjoy strong civil society traditions. During the "revolutionary struggle", solidarity and cooperation – which previously existed mainly at the village level – was strengthened among different groups, but promises to ethnic groups that supported the revolution were not fulfilled. At the same time, civil society organizations formed throughout the Royalist period (1946-75) were disbanded. The promise represented

Civil society
traditions

10

by the 2009 Decree on Associations, which permitted the formation of independent NPAs, has been invalidated since late 2012, as tight regulations and government supervision continue to hinder organizational efforts of civil society.

Despite inherited divisions along geographical and ethnic lines, there are few ethnic, religious or social conflicts in Laos. This may to some extent be due to the draconian control exercised by the ruling party, and the officially required rhetoric of consensus that dominates the public sphere. Small-scale conflicts over resource usage, especially compensation for acquired land, continue to emerge, but these incidents remain isolated against the party's intolerance of public criticism. The longest-running ethnic conflict, a relatively small but persistent Hmong insurgency, collapsed in the 2000s, and several pro-government Hmong hold positions of authority in both the LPRP and the government. The Hmong president of the National Assembly, Pany Yathotou, for instance, is also a member of the Politburo. The government bans all Christian and other religious missionary activity in Laos, but supports Buddhism as central to Lao cultural identity. The small Christian community is equally divided between Catholics (ethnic Lao) and Evangelical Protestants (ethnic minorities), while both maintain a low profile. The Lao Front for National Construction, the party's front organization, mediates the limited social conflict that does exist.

Conflict intensity
3

II. Management Performance

14 | Steering Capability

The long-term aims of the political leadership (the LPRP Politburo and Central Committee) are two-fold. The first is to retain its monopoly on power, which means preserving the current one-party system. This objective has been reiterated at every party congress. The second aim, subordinate to the first, is to develop the economy and raise living standards. To this end, the LPRP outlines and endorses a new five-year NSEDP at each congress. The next congress and NSEDP is due in early 2016 but little in these priorities is expected to change.

The government is genuine in wanting to develop the economy and reduce poverty, a key part of its strategic long-term priority of "graduating" from least-developed country status by 2020. However, political survival is paramount for the party, which enjoys the strong backing of both Vietnam and China. Economic development strengthens the position of the party, but if party leaders believe these priorities to be in conflict, politics takes precedence, for instance in the reflexive suspicion directed at the civil society sector. While internal politics are not clear, the most influential ministries – Defense, Public Security (Interior) and Foreign Affairs – are most likely

Question
Score

Prioritization
3

to prioritize “stability” over economic progress. The divergent goals of the party also manifest themselves in policies such as the pilot 3-Builds (sam sang) directive, implemented since 2012, which is ostensibly a decentralization measure aimed at strengthening central authority, especially over the exploitation of natural resources.

The effective lack of democracy enables the leadership to pursue unpopular development strategies that boost the economy. But the lack of democratic accountability means the resulting policies – such as “turning land into capital” – can have disastrous consequences for rural livelihoods. While damaging the fiscal balance in the short run, the recent increase to public wages and allowances was overdue in view of the corrosive impact low public-sector wages can have on recruitment and corruption.

Because political survival takes precedence, the political leadership is reluctant to embark on reforms it believes might undermine its political interests. There is thus a great degree of variation in implementation. On the one hand, large-scale projects such as hydropower dams and other infrastructure, often funded with Thai, Chinese or Vietnamese capital, are implemented with the full support of the state. Notable examples during the investigation period include the Xayaburi and Don Sahong Dams on the main stream of the Mekong River. The government has continually restated its commitment to these projects in spite of significant social and environmental concerns raised by downstream countries and foreign and international NGOs. On the other hand, reforms agreed upon with international donors, often aimed at improving the functioning of the market economy or supporting civil society, are subsequently left unimplemented for fear they will weaken the party, or the political position of powerful individuals within it. The ruling party’s refusal to link the market economy and democracy is frustrating for international donors, who argue that the Lao economy would be stronger if economic and political reforms were enacted together.

In addition, the effective implementation of endorsed policies, such as poverty reduction and improved bureaucratic efficiency, has been undermined by increased levels of corruption and poor law enforcement. Another problem is that powerful provincial governors do not always implement laws and regulations put in place by the central government – against the 3-Builds directive that was a major focus during the investigation period. Rising corruption levels have reinforced the government’s reluctance to introduce measures that would increase transparency, despite regular commitments to do so, thus further limiting the efficiency of policy implementation.

Despite a gradual change in the makeup of the LPRP Politburo and Central Committee, the leadership’s commitment to the political status quo remains the greatest barrier to policy learning. The leadership is not inflexible, as indicated by the relative success of the country’s market economy over the last two decades. As it has been replenished, the leadership has developed a better understanding of the

Implementation
3

Policy learning
4

workings of a market economy, the impact of global economic forces and the motives of international organizations pressing for reform. But what it understands best is Lao politics, especially the politics of party power and patronage. Many decisions are made (or not made) for intra-party political reasons that are obscure to observers.

In the face of international criticism, leaders continue to exhibit inflexibility in areas considered to be “internal matters”. Despite international disquiet since late 2012 at the deplorable investigation of Sombath Somphone’s disappearance, the government chose to use this incident as an opportunity to flaunt its newfound “transparency”, denying all accusations it faced after Sombath’s family bootlegged footage of the abduction and posted it to YouTube. Charades such as this demonstrate the regime’s skill in manipulating international norms rather than its capacity to exercise policy learning.

As for economic policy, the government in Laos sometimes accepts advice from international institutions (the IMF, World Bank, ADB, etc.). In 2013, for example, the party leadership moved quickly to delay public sector wage rises in response to IMF concerns that the economy was in danger of “overheating”. More typically, it follows advice only reluctantly, especially where a condition of receiving aid. Whatever impetus there is for economic reform comes mainly from Vietnam and China, whose state-supervised economic model Laos has adopted.

15 | Resource Efficiency

The government fails to make full use of the human, financial and organizational resources available to it. Lao political culture revolves around the competitive interests of powerful individuals, their families and their networks of political clients. At its core lies the benefits and opportunities a powerful individual can provide, by way of employment and other economic advantages. As a result, public service is highly politicized. Recruiting procedures are neither open, transparent nor competitive, to an extent where the most qualified and capable candidates are likely to be overlooked. Laos has a slowly increasing pool of foreign-educated, technically competent administrative personnel, but graduates seem continuously in awe of political imperatives and reluctant to make decisions that might jeopardize their careers.

When decentralization took place in the past, corruption increased at the provincial level. Centrally appointed civil servants (teachers, health workers) were unpaid, and revenue was not remitted to the central government. Subsequent re-centralization of financial matters (including payments of public servants, taxation and customs) did little to increase revenue, and corruption continues to permeate bureaucracy. These missteps may explain enhanced central oversight of the latest decentralization initiative, the 3-Builds directive, which aims to establish greater control over resource

Efficient use of
assets

4

revenues. Despite this program, which is principally a mobilization campaign aimed at achieving development targets, there are few prospects of reforms which would make public administration more transparent or effective, at least in the immediate term.

In 2013, the IMF warned the Lao government against excessive government spending, resulting in increases of public-sector salaries, and the widening budget deficit (6% of GDP in 2013). While state debt remained moderate, according to the World Bank/IMF Debt Sustainability Analysis of 2013, the increasing debt-to-GDP ratio enhanced the need to strengthen debt management capacity and carefully consider any new large-scale borrowings.

Policy coordination is weak due to structural conflict between the political and economic priorities of the government, and competition 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. Ministries often function as fiefdoms to be protected from outside interference, which limits coordination and cooperation. Policy-making is frequently driven by the urge to take advantage of donor projects. Horizontal coordination is almost nonexistent. Decision-making is centralized and hierarchical, and is a prerogative senior officials guard jealously. Even the most minor technical matters get passed up the hierarchy where decisions are made.

Policy
coordination
3

Corruption is ubiquitous in Laos. This chronic and growing problem has been exacerbated by the example provided by senior party leaders, and by foreign investors' willingness to buy political support and pay off officials. A culture of corruption has taken hold, encouraged by the political culture of patronage that operates within the LPRP.

Anti-corruption
policy
2

A presidential Anti-Corruption Commission did virtually nothing to improve matters, and the passage of an Anti-Corruption Law in 2005 had minimal effect. The party-controlled media frequently runs articles condemning corruption, but without naming names. A State Inspection Law passed in June 2007 was supposed to strengthen the State Inspection Authority, which is charged with policing the public service to ensure officials are not using their positions for personal gain (which almost all do). The government has also established an audit office, but it sits within the Ministry of Finance and does not function independently. Whether recent additions to the party-state's corruption regime, such as an enhanced assets register, shall make a difference remains to be seen. In short, the government's integrity mechanisms are not independent and do not perform their function. Although low-level officials have faced criminal charges for corruption, and higher-level officials (up to the level of provincial governors) have been removed from office due to corruption, there have been no high-profile prosecutions of senior officials (unlike in Vietnam and China).

Corruption is encouraged not just because of the politics of patronage, but also because of the secrecy of the party, its structure, and the extraordinary overlap between party membership, government, the bureaucracy and the judiciary. Party finances are never published, officeholders are not accountable, and the activities of the Central Committee are not publicized. The problem of corruption has come up in the National Assembly, but again, no one has disclosed any names. Anecdotal evidence suggests that the rising levels of corruption are translating into diminishing popular support for the party, perhaps explaining recent pronouncements and innovations such as the assets register.

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

16 | Consensus-Building

Although “consensus” is a key rhetorical value of the LPRP regime, the stifling of dissent hinders an evaluation of the existence, or the lack of, consensus regarding democracy in Laos. Many people seem to concur with government boasts over the “stability” of Lao politics compared to its formerly democratic neighbor Thailand next door, whose political crises have been displayed over Thai television which most Lao watch. More substantially, however, local 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.

Key decision-makers within the party also appear to agree that the best way to develop the economy is by permitting a free market to function. There is broad support, in the party and beyond, for a strategy that would enable Laos to graduate from LDC status by 2020 – an objective that has dominated all else in the past decade. Beyond that, there is little consensus on the purpose of economic development. While some leaders and bureaucrats are motivated by the desire to eradicate poverty and develop the country’s human resources, several senior party members seem to support the idea of growth as a means to increase their personal wealth. Values of prosperity and progress are widespread among entrepreneurs and the urban population, but those regarding the need for democracy are not accounted for. Since 2012, increased pressure on civil society organizations, some of which question the

Consensus on goals
4

impact of the market economy on the environment and rural livelihoods, has further restricted discussions of alternative development priorities.

The few reformers existing in Laos – inside or outside the party – have near to no control over the anti-democratic actors that make up the one-party system. Those who do express their belief in reform are relieved of their positions, if not worse. In May 2012 the director of the Academy of Social Sciences, Khampheuy Panmalaythong was dismissed for his 2011 comments to the National Assembly, in which he questioned the teaching of Marxism-Leninism in an era of globalization. Late in December the same year, prominent civil society leader Sombath Somphone disappeared, presumably abducted by the security apparatus, following his involvement in the events and aftermath of the controversial Asia-Europe People’s Forum two months earlier (reported in BTI 2014). In the wake of the AEPF controversy and Sombath’s disappearance, party leaders urged tighter regulation of civil society, putting an end to even the most cautious discussion of reform that could be interpreted as political criticism. Likewise, those elements within the party and bureaucracy who accept the logic of economic reform and would like to see corruption reduced represent a small and powerless minority.

Anti-democratic
actors

1

Political cleavages in Laos are rarely ideological. Rather, cleavages arise from a 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 equitably treated. The party cannot eliminate these divisions but it has been relatively effective in preventing them from escalating. Compromise is common among the Lao, who prefer to avoid face-to-face conflict. The “democratic centralism” that operates within the LPRP also helps build consensus. There are reports of tensions in the party between military and civilian factions, old-guard revolutionaries and new-generation technocrats, and those who lean toward China rather than Vietnam, but such reports are largely based on rumors or speculation since differences are never aired publicly.

Cleavage /
conflict
management

6

Despite its decree allowing local Lao NPAs to be established in 2009, the LPRP does not encourage civic engagement or solidarity among Lao citizens, unless it is in support of the party and its policies. NPAs have to apply for registration, so the government can reject applications, and those who do not quietly submit to the official line – for instance over land disputes – have been intimidated. Observers linked the disappearance of civil society leader, Sombath Somphone in late 2012 to his advocacy of victims of such intimidation. In the wake of this incident, which attracted vast amounts of international condemnation, party leaders promised to crack down on civil society groups that did not toe the official line. In speech reminiscent of the Cold War tone, former president and party chairman Khamtay Siphandone targeted such groups with the claim that “enemy forces and groups of bad persons are attempting to sabotage and revolutionize our country through peaceful means”. While some professional associations exist, such as the Lao Bar Association and the

Civil society
participation

1

Lao National Chamber of Commerce and Industry, these remain under the formal or de facto supervision of the party. No political debate is permitted, except within the party itself.

The LPRP appears to be making some efforts to reconcile with overseas Lao communities, which fled the country after the 1975 revolution, by encouraging them to return and invest in Laos and, symbolically, by inviting overseas Lao delegations to attend high-profile national events. However, reconciliation takes place purely on the terms of the regime, which continues to legitimize its rule by celebrating the history of revolutionary struggle. Overseas Lao may visit Laos or relocate permanently, provided they do not involve themselves in politics, but the government does not permit dual citizenship.

Reconciliation
4

The government did make an effort to bring about reconciliation with those Hmong and other members of ethnic minorities who fought on the Royal Lao side during the “30-year struggle” (1945-1975), offering amnesty to all who surrendered. Those who did not accept this offer were subject to continuing military repression. Although the treatment of Hmong who surrendered in the late 2000s was intransparent, the government has more recently allowed international observers to establish contact with those resettled.

17 | International Cooperation

Laos has been remarkably successful in attracting foreign aid from across the ideological spectrum. In order to do so, it includes development partners in an annual roundtable process that helps to develop and monitor its 5-yearly NSEDPs. Nevertheless, 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 enough progress to ensure that economic assistance continues, it resists any international pressure for democratic reform. This is a fine line but one the government has walked nimbly. Authorities have been slow to implement agreed-upon reform programs, and many in the international community have become frustrated and suspicious of affable Lao promises. Increasing Chinese and Vietnamese assistance – which comes with fewer strings attached – has provided an appealing alternative and greater opportunities for rent-seeking. The government continues to demonstrate refusal to yield to international criticism in the wake of the construction of Mekong dams, even if raised by such allies as neighboring Vietnam traditionally is.

Effective use of
support
6

Since the latter half of the 2000s, the Lao government has generally been considered a reliable partner by international organizations, NGOs and bilateral partners. In 2013/14, however, the country faced unprecedented scrutiny over its inability – or unwillingness – to mount a credible investigation of the disappearance of Sombath

Credibility
5

Somphone in late 2012. Ongoing calls for a thorough and transparent investigation highlight the deterioration of trust among Western governments and U.N. organizations, though the episode has not affected aid flows and there is no sign that it will do so. However, foreign investors are often cautious toward Laos. Despite improvement in recent years, the World Bank ranks Laos 148th out of 189 countries (2015) in terms of the difficulty of doing business.

Laos joined ASEAN in 1997 and puts a premium on its membership. Together with other members, it is due to promulgate the ASEAN Economic Community in late 2015. In addition, it will assume the revolving chair in 2016 for the second time after a much-celebrated first round in 2005. Having long sought to balance cooperation with and autonomy from its larger neighbors, Laos appreciates the ASEAN principle of non-interference and is more comfortable cooperating with other ASEAN states than with Western countries. Laos is also an enthusiastic member of the ADB's Greater Mekong Subregion (GMS) scheme, which includes the Chinese province of Yunnan as well as the mainland ASEAN states. It has embraced the advantages of an extensive communications network among GMS members, allowing landlocked Laos to be regarded as "land-linked." Still, the country retains its closest relations with its "fraternal" communist ally, Vietnam, and has progressively grown closer to China. On the other hand, it has pressed ahead with plans to develop the Xayabury and Don Sahong dams (DSH) on the Mekong River, despite protests from Cambodia, Vietnam and Thailand that this was a violation of the spirit, if not the letter of the Mekong Agreement (1995), which established the Mekong River Commission (MRC) to manage the lower basin. Disingenuously, authorities insisted the DSH development did not constitute a "mainstream" dam, which would automatically attract a mandated consultation according to the MRC's Procedures for Notification, Prior Consultation and Agreement. Although it later relaxed its stance and allowed a consultation period, the strong likelihood that the Don Sahong project will be constructed as foreseen demonstrates an increasing willingness to act unilaterally, despite regional criticism from its even closest ally.

Regional
cooperation
8

Strategic Outlook

The Lao PDR has made no progress toward democracy during the past two years. The tightening of control over civil society in the period since Sombath Somphone's disappearance in late 2012 reinforced repression and self-censorship. Likewise, although the ruling regime will continue to introduce reforms required of WTO membership and promote the AEC in 2015, it is likely not to provide greater transparency and accountability in the areas of revenue collection and expenditure.

In spite of this reality, Laos continues to entertain good relations with its neighbors, ASEAN members and Western powers, both for internal security reasons and to ensure the continued flow of foreign aid and investment. Since 2000, there has been growing investment and influence from China, which has caused some concern in the region, as well as in Laos itself. Investment is also flooding into the country from Vietnam, Laos's erstwhile political ally, from Thailand, and newer investors such as Malaysia and South Korea. As a result, Laos no longer relies on Western and Japanese aid as much as it used to.

Economic assistance to the Lao PDR needs to be assessed under given circumstances. Well-targeted economic and human resource development may benefit some of the poorest among the Lao population, and infrastructure projects will have a long-term impact. But economic development is highly unlikely to result in political change. The minor wealthy, educated or business elite has been co-opted by the party and refrains from advocating democracy. As long as the LPRP remains in power, it is most likely to continue to operate as it has always done, balancing competing interests within the party and dispensing benefits to its members and other vested interests in ways that are opaque to most outside observers.

Despite the imminence of the tenth LPRP Congress and eighth NSEDP, both scheduled for 2016, the most likely outlook is for the current situation to persist, with just enough promise of economic reform made to keep aid flowing but no practical effect that might threaten the party's hold on power. This is hardly an optimal outcome but one with which Western aid agencies and NGOs must work. While recognizing that significant political change remains extremely unlikely in the foreseeable future, international actors should continue to pursue the following strategies:

- Keep economic reform on the agenda in two ways: by stressing the attractiveness of transparent processes for foreign investors, and by demonstrating benefits for development and economic growth where reforms have been introduced.
- Strengthen the rule of law by providing programs to support the National Assembly, help to disseminate laws that have been passed and encourage implementation by stressing the benefits for Lao society.

- Promote education as a national priority through support for the Ministry of Education (curriculum workshops, producing and printing textbooks, teacher training, etc.), by stressing economic benefits, and by making comparisons with ASEAN states and other Asian countries.
- Provide the fledgling civil society sector with responsible and context-sensitive support – monetary, in kind and moral – to assist it in maintaining a presence, however limited, as the regime seeks to close political space.

As the past two years have demonstrated, such efforts will not suffice to develop civil society or to lay foundations for a more democratic system. Therefore, international actors should raise concerns over the clampdown on civil society with government counterparts, voice these concerns publicly and internationally, and urge the government to uphold its own constitution. If faced with continued stonewalling, as seems likely, they should consider reassessing their goals in working with the Lao government and the application of appropriate forms of pressure. In a positive sense, international agencies should attempt to convince the government of the benefits of cooperating with democratic countries, particularly when compared with the consequences of poorly regulated resource-intensive development underwritten by unscrupulous foreign investors. Despite the formidable challenge and geopolitical shifts in recent years, the Lao government continues to derive domestic and international legitimacy from its relations with the West, bestowing these development partners with a significant degree of influence if exercised appropriately.