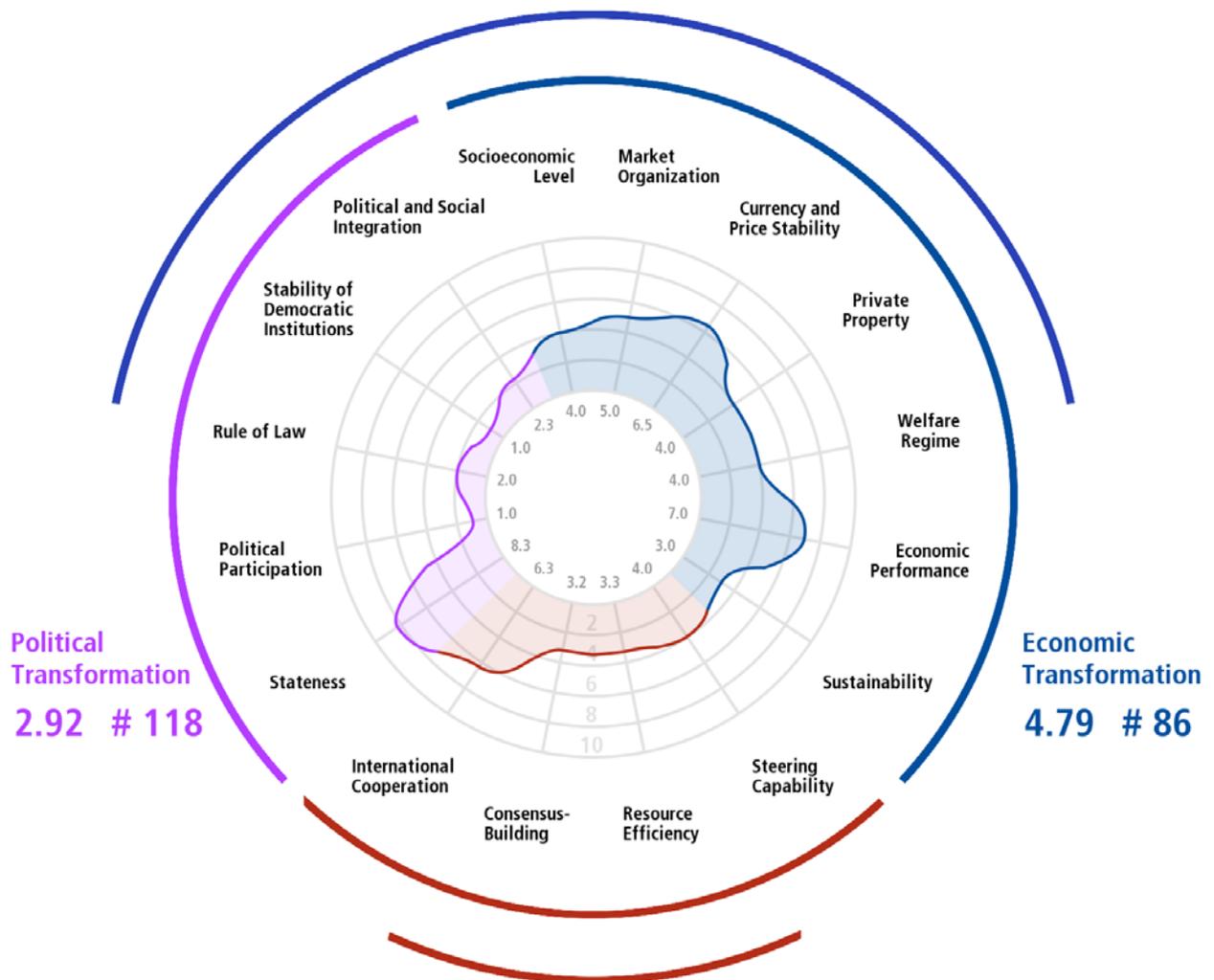


Laos

Status Index

3.85 # 106

on 1-10 scale out of 129



Political Transformation
2.92 # 118

Economic Transformation
4.79 # 86

Governance Index

3.89 # 95

on 1-10 scale out of 129

This report is part of the Bertelsmann Stiftung's Transformation Index (BTI) 2018. It covers the period from February 1, 2015 to January 31, 2017. 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>.

Please cite as follows: Bertelsmann Stiftung, BTI 2018 Country Report – Laos. Gütersloh: Bertelsmann Stiftung, 2018.

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

Robert Schwarz

Phone +49 5241 81 81402
robert.schwarz@bertelsmann-stiftung.de

Sabine Steinkamp

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

Key Indicators

Population	M	6.8	HDI	0.586	GDP p.c., PPP \$	6186
Pop. growth ¹	% p.a.	1.4	HDI rank of 188	138	Gini Index	36.4
Life expectancy	years	66.3	UN Education Index	0.505	Poverty ³	% 58.5
Urban population	%	39.7	Gender inequality ²	0.468	Aid per capita \$	70.7

Sources (as of October 2017): The World Bank, World Development Indicators 2017 | UNDP, Human Development Report 2016. Footnotes: (1) Average annual growth rate. (2) Gender Inequality Index (GII). (3) Percentage of population living on less than \$3.20 a day at 2011 international prices.

Executive Summary

The past two years in Laos were dominated by the Tenth Party Congress of the Lao People's Revolutionary Party (LPRP) in January 2016, held every five years. This congress was particularly important because of the significant turnover, due to retirement and death, in the most senior ranks of the party leadership. As in the past, however, the process was carefully managed to maintain the regime's grip on political power and retain the substance of its economic strategy, which continued to deliver some of the region's strongest rates of economic growth.

As on past occasions, the Tenth Party Congress took stock of the country's political and economic performance over the previous five years, adopted the next five-year National Socio-Economic Development Plan (NSED) and, most importantly, elected the new 69-member Party Central Committee (PCC), politburo and secretary general. The congress was followed in March by elections for a new National Assembly (NA), dominated entirely by the LPRP as the only legal political party, which duly approved party nominations for a new president and prime minister.

As age finally catches up with the revolutionary generation, there was considerable turnover in the 11-member politburo. After two terms, the incumbent Secretary General Choummaly Sayasone stood aside, as did Prime Minister Thongsing Thammavong, Deputy Prime Minister Somsavath Lengsavad (closely identified with a string of Chinese-funded mega-projects), and veteran party man, Asang Laoly (also a deputy PM). In addition, former defense minister and deputy prime minister, Douangchay Pichit, had been killed in a 2014 plane crash while the ambitious Bounpone Bouttanavong, another deputy prime minister, was demoted.

The new leadership nevertheless retained fundamental continuity with the past. Like his predecessors, newly-elected party Secretary General Bounnyang Vorachit was a former soldier and, hailing from the country's south, well-connected to the networks of his immediate predecessors, Choummaly and Khamtay Siphandone. Similarly, the new party number two, Thongloun Sisoulith, a long-serving deputy prime minister, was son-in-law of a party founder,

Phoumi Vongvichit. In April, Bounnyang and Thongloun were duly confirmed as state president and prime minister.

Whereas both Bounnyang and Thongloun are in their 70s, the next tier of leaders was dominated by a new generation of party technocrats and “princelings” (the children, nephews, and nieces of party founders). Important promotions included long-serving members of the party apparatus – notably Bounthong Chitmany (party number four), Phankham Viphavanh (five), and Chansy Phosikham (six) – as well as sons of the party’s first two secretaries general, Xaysomphone Phomvihane (seven) and Sonexay Siphandone (eleven). According to one estimate, 25% of the 69-member Party Central Committee was connected through birth or marriage to party founders.

According to the new five-year NSEDP (2016-2020), endorsed by the congress, Thongloun’s new government continued to pursue high economic growth in order to “graduate” from least-developed country (LDC) status by 2020. With continuing high levels of foreign investment in resource intensive industries (particularly hydropower, mining and plantation agriculture), annual growth rates fluctuated between 7% and 8%. In addition, the new government of Thongloun enhanced earlier efforts to improve fiscal discipline.

Less expected, the party used the congress to trumpet its work in the reduction of corruption, a trend that continued afterwards with news reports publicizing State Inspection Authority activities and statistics. On the other hand, the apparent arrest for corruption in late 2015 of a former finance minister and Bank of Laos governor was not publicized, and it was unclear whether the party had embarked on a systematic crackdown in the recent style of China and Vietnam.

After the 2012 crackdown on non-profit associations, there was little improvement in the areas of civil society and political participation. To the contrary, the government passed new rules regulating the activities of international NGOs, cancelled the People’s Forum which traditionally takes place on the sidelines of the ASEAN Summit (which Laos hosted in 2016), and arrested foreign workers on their return to Laos for criticizing the government online. In addition, the government held its line on a number of dams on the mainstream of the Mekong River, which have potentially devastating consequences for fish stocks in Laos and especially downstream countries.

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 the process is subject to patron-client relations flowing from the center to the level of the district. 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 all candidates are carefully 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. The formation of cooperatives was abandoned, restrictions on internal trade were removed and a free market was introduced for agricultural produce. The government also liberalized international trade and sought foreign investment. As in 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 two decades. As investment has steadily picked up, especially in hydropower, mining, commercial 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

and a new campaign seems to have been launched, no senior political figure has yet been publicly 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 commercial 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

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. In late 2015 and early 2016, just prior to the LPRP Congress, there were a small number of attacks on buses and private vehicles in Xaysomboun Province, an area north of the capital where Hmong insurgents and bandits formerly operated, but there was no indication that these were related to past incidents. More likely, they were related to disquiet over development projects or perceptions of Chinese influence (Chinese workers were among those targeted). 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.

Laos is among the most ethnically diverse countries in Southeast Asia. Under the RLG 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 – though the earlier terms remain in popular usage. Both the nationality and the “race” (noted on identity papers) of all 49 different ethnic groups officially recognized in the 2015 census is “Lao.” While in the past some ethnic minorities, such as certain Hmong groups, rejected the dominant concept of the nation-state, the large majority now accepts it as legitimate.

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. In addition, a small number of non-Lao citizens (45,000) also reside in Laos, mostly from Vietnam and China, though the official figure probably underestimates the real number, which is increasing due to irregular migrant labor. Members of the

Question
Score

Monopoly on the
use of force

8



1

State identity

8



1

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.

The Lao state is secular and laical, but in many respects, the leadership has taken on the role of protector of Buddhism, which before 1975 was attributed to the monarchy. According to the 2015 census, 64.7% of the population adhere to Theravada Buddhism, while most of the remainder is officially “no religion,” which in most cases means they are oriented toward local, ethnic religions, colloquially called “spirit religion.” Christians (1.7%) are a small minority. While the country officially endorses religious freedom, non-Buddhist proselytism is closely surveilled, and those converting to Christianity (usually ethnic minorities) are occasionally prosecuted. However, this is less motivated by religious issues rather than by fear of foreign (Western) influence. 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, such as in neighboring Thailand and Myanmar, 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 Yathotou, a Hmong member of the Politburo, was named president of the National Assembly, a position she retained in 2016, and around 30% of the Central Committee are non-Lao. 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 managed, by higher levels in the party-state structure although local and provincial party committees can also be influential in the election of party secretaries. 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 71% and 77%, respectively, in 2015 compared to 43% and 56% in 2005). Transportation and communication links in remote areas, however scarcely spread, are also slowly being improved, but the topography of Laos is challenging and authorities are working from a very low starting point.

No interference of religious dogmas



1

Basic administration



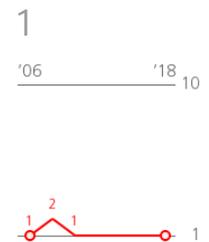
1

2 | Political Participation

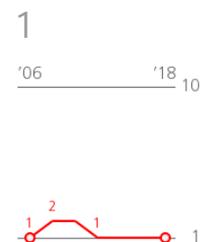
The Lao constitution defines the LPRP as the “nucleus” of the political system and no other political parties are permitted. Thus, while elections for the National Assembly are held every five years (most recently in March 2016), elections are not considered free and fair. Besides a few independents, all candidates are party members and all (including independents) are vetted by the party-controlled Lao Front for National Construction (LFNC). Although all citizens over the age of 18 are eligible and required to vote, power remains firmly in the hands of the party, whose politburo and central committee determines policy matters and, as a result, 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 2016, none raised any but mild criticism of the government. Nor was there any critical discussion in any of the entirely party-controlled media outlets. In 2016, elections took place for the first time at provincial level, though it is too early to judge the impact of provincial assemblies on local politics and issues. Village heads must be approved by the party and while generally appointed may be selected through communal approval.

As a one-party state, it is the party leadership in Laos, not the elected members of the National Assembly that possess the power to govern. Potential veto players are either central components of the political structure, as in the case of the politburo and military, or have been accepted 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 business interests struggle if lacking the requisite political connections. The increased voicing of local issues noted in recent years in the elected National Assembly does not equate to political openness or even a modest form of “semi-democracy.” Likewise, while a “National Assembly Hotline” enables citizens to voice grievances, for instance over land rights, and has increased government awareness of issues of public concern, it provides no formal guarantee of participation. Although it is too early to say whether the newly constituted and elected provincial assemblies will enhance the ability of representatives to engage with local issues, the primacy of the party leadership in high-level decision-making will not change under the current system. More positively, early statements by the new government of Thongloun Sisoulith appear to show some awareness of concerns that have been voiced in the National Assembly in the past, such as those concerning land concessions and compensation. Time will tell if this apparent responsiveness equates to a nascent, informal capacity of elected officials to influence government decisions.

Free and fair elections



Effective power to govern



Although the right and freedom of speech, press and assembly is theoretically provided for 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. This occurred on one well-known occasion in 1999 and again on the eve of the Southeast Asian Games in 2009. The passing of a Decree on Associations (2009), which permitted non-profit associations to register with the government, appeared to represent an important reform in terms of developing civil society. However, the change promised by this reform has failed to materialize. Despite 70 non-profit associations (NPAs) being listed in the most recent Directory of CSOs, all NPAs have little choice but to retain close relations with the state. Moreover, a series of events since late 2012, when Laos hosted the Asia Europe People's Forum (AEPF) in conjunction with the Asia Europe Meeting (ASEM), confirmed the inability of such organizations to operate independently. At this event, the government and security forces responded to discussion of land and environmental issues by local speakers with threats and intimidation. Afterwards, an AEPF organizer and director of an international NGO was expelled for raising concerns in a private letter to the government, and two weeks later another AEPF organizer, Sombath Somphone, disappeared after being stopped at a police checkpoint on a busy Vientiane road. Although the government pleaded that it was investigating Sombath's disappearance, its failure to make any progress over the following years intensified speculation that he had been silenced due to his advocacy work. After these incidents, government leaders targeted civil society in speeches and, in 2014, introduced guidelines to tighten the regulation of international NGOs.

Association /
assembly rights

1
'06 _____ '18 10

1 ————— 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, these publications avoid politics, and as such there remains no plurality of opinions in the state-controlled media. Opinion cannot be freely expressed in any public forum, nor through public protests or demonstrations, and a media law presented to the National Assembly in July 2008 has done nothing to reduce government control over political coverage. Although private criticism of the government is tolerated and National Assembly members are encouraged to discuss development issues, their freedom of speech is limited. 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 expression by regulating 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

Freedom of
expression

1
'06 _____ '18 10

1 ————— 1

govern freedom of expression, and were thus 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. Tangible evidence of such restrictions emerged in 2016 when three citizens working in Thailand were arrested on their return to Laos for posting comments critical of the government on Facebook.

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 and which render de jure provisions of checks and balance meaningless. What does exist in terms of de facto division of labor between different branches of government and layers of the political system does not reflect constitutional checks and balances, but rather power politics and the centrifugal tendencies of a highly decentralized authoritarian regime held together by the organizations of the LPRP. As a result, no checks and balances apply between the three institutions of government. Moreover, there is no constitutional court to judge the validity of legislation.

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. 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. While minor officials are occasionally prosecuted under the existing anti-corruption law, no senior members of the party, whose example has encouraged the prevailing culture of corruption, has been targeted publicly. Complaints to the police (where the police are

Separation of powers



Independent judiciary



Prosecution of office abuse

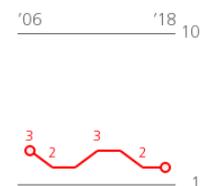


not at fault) or to the Office of the Public Prosecutor usually go nowhere. Laos has no ombudsman.

In 2016, however, there has been a pronounced change in rhetoric and, perhaps in practice, under the new government of Thongloun Sisoulith. During the LPRP Congress in January 2016 and the months that followed, multiple press reports highlighted the activities of the Party Inspection Committee and State Inspection Authority in disciplining officials. As in the past, the vast majority of those targeted were at junior levels and names were not mentioned. But this did represent a shift, suggesting disapproval of corruption by the National Assembly and among the public has begun to have an effect. On the other hand, conflicts of interest remain rife, the press plays no role in investigating cases of corruption, and because secrecy and anonymity remain the norm, punishments go unreported. As in the past, it seems likely that the most common punishment is a warning or, in more serious cases, expulsion from the party or removal from office. Further muddying the waters, however, such punishments can often stem from intra-party politics rather than relating to a case of corruption.

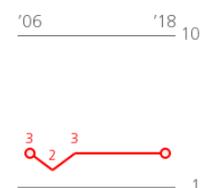
Although civil rights are in principle protected by the Lao constitution, widespread violations occur. Rights of assembly and the free expression of political beliefs are nonexistent. Religious freedom is officially guaranteed but is limited in practice where authorities believe religious differences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

Violations of civil rights disproportionately affect the poor and powerless in rural areas, where foreign companies (particularly from China and Vietnam) have obtained substantial land concessions from central and provincial governments. In an increasing number of documented cases, both ethnic Lao and minority groups have been left with little choice but to make way for plantation forestry, agricultural and hydropower projects. Concerns over land-use policies and inadequate compensation have been voiced in local protests, international meetings, and even by the National Assembly, but authorities typically take harsh actions against dissenters. Since the disappearance of Sombath Somphone in late 2012, presumed by many observers to have been abducted by Lao security forces, the self-regulation of civil society organizations has increased, and the public political sphere has waned. Finally, in 2016 the government canceled the ASEAN People's Forum, typically hosted by the ASEAN chair, citing its concern over potential criticism of regional governments. This came as little surprise given the threats and intimidation that marred the 2012 Asia-Europe People's Forum, the last time Laos hosted such a meeting.



Civil rights

3



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 elected in a free and fair manner 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. The reality is more complicated. While district, provincial and ministerial party committees have some autonomy to elect party secretaries, policy formulation operates from the top down, and decisions by the party leadership must be accepted. While the five-yearly congresses of the LPRP provide an opportunity for policy reform, the prospects of democratization remain poor, as shown in the most recent congress in January 2016.

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

Performance of democratic institutions



Commitment to democratic institutions



5 | Political and Social Integration

There is no party system in Laos. The LPRP, defined by the Constitution as the “leading nucleus” of the political system, is the only legal party. It is stable, well institutionalized and deeply rooted in Lao society, and nothing that has happened over the last two years has threatened its stability or its hold on power. In 2016, when the Tenth Party Congress was held, party membership was estimated at 252,800 (almost 4% of the population). Membership is attractive to those who are politically ambitious and to those who seek to tap into networks of influence. The party actively recruits members from among the educated elite, and even some businessmen are party members.

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

Party system



Interest groups

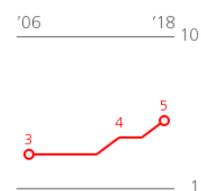
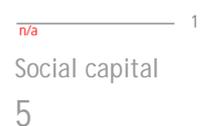


Lao Chamber of Commerce. Social and economic interest groups (teachers, health workers, and business people) are represented at party forums by virtue of party membership, not as interest groups per se.

The formation of non-party NPAs has only been permitted since the Decree on Associations was passed in 2009. 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 of around 70 NPAs by 2014 (the most recent year for which data is available) – 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 highly 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 role in nurturing what local civil society does exist.

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.

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, confinement of civil society activities has created fear and distrust since 2013, reminiscent of Laos’s more oppressive past. Outside of the political sphere, however, a number of social and cultural groups exist, especially in Vientiane, and interest in such communal activities has grown noticeably with increased prosperity.



II. Economic Transformation

6 | Level of Socioeconomic Development

Backed by the World and Asian Development Banks, the Lao government has committed itself to a long-term poverty reduction program aimed at lifting the country above least-developed country status by 2020. While it is not yet certain whether the country will achieve this target, UNESCAP and UNDP surveys indicate that it has made significant progress toward achieving the Millennium Development Goals. Poverty levels – both absolute and relative – have been reduced. Between 2002 and 2012 (the latest year for which figures are available), the poverty headcount ratio (at \$3.10 a day, 2011 PPP) fell from 62% to 47% of the population.

Nevertheless, the picture remains decidedly mixed. In 2014, Lao PDR's Human Development Index score stood at 0.575, ranking it 141 out of 188 countries. This represented little change from 2013 (139 out of 187). While the country has continued to enjoy sustained levels of high economic growth, this has translated into relatively small reductions in poverty in relation to comparable countries in the region like Cambodia, Vietnam and Indonesia. This is due to the disproportionate dependence for growth on the capital-intensive natural resources sector, which does not translate into employment and household consumption. Although this pattern is observed in other countries where economic growth is led by the resources sector, Laos compares unfavorably with some other resource rich countries (e.g. Uzbekistan, Tajikistan, and Mongolia) that employ effective redistributive policies.

In addition, economic growth was concentrated in the national and provincial capitals. According to the World Bank, rural poverty remains three times higher than urban areas (28.6% vs. 10%, based on poverty line of \$1.25 PPP dollars per day). Thus, despite 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. Additionally, gross corruption has further concentrated wealth in the hands of a relatively small political elite. These factors contribute to growing levels of inequality. Since 2007 to 2008, the Gini coefficient of income distribution has worsened from 35.0 to 37.9.

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

Question
Score

Socioeconomic
barriers

4

'06 '18 10



1

is not culturally ingrained, and does not impede significant vertical and horizontal social mobility by some in these groups.

The picture is more mixed in the case of gender exclusion. On the one hand, Laos's Gender Inequality Index worsened markedly from 0.496 to 0.534 between 2012 and 2013 (the most recent data available). This saw the country fall from 100 out of 148 countries in 2012 to 118 out of 152 in 2013. One area of disadvantage is education. Despite steady improvements, fewer females than males complete secondary and tertiary studies (the ratio for both is 0.9), and female adult literacy remains significantly lower than male (73% vs. 87%). On the other hand, women make up half 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 almost 30% of the seats in the National Assembly in the 2016 elections, a relatively high proportion for the region.

Economic indicators		2013	2014	2015	2016
GDP	\$ M	11942.2	13268.3	14390.3	15903.4
GDP growth	%	8.0	7.6	7.3	7.0
Inflation (CPI)	%	6.4	4.1	1.3	1.5
Unemployment	%	1.3	1.3	1.4	1.5
Foreign direct investment	% of GDP	3.6	6.9	7.5	6.3
Export growth	%	5.3	10.5	-7.0	1.4
Import growth	%	12.4	8.6	-5.6	-4.4
Current account balance	\$ M	-376.1	-1178.3	-2264.5	-
Public debt	% of GDP	54.3	58.4	57.6	58.9
External debt	\$ M	9795.6	11400.2	13012.5	14159.9
Total debt service	\$ M	344.3	392.7	420.8	555.7

Economic indicators		2013	2014	2015	2016
Net lending/borrowing	% of GDP	-4.7	-2.2	-3.7	-
Tax revenue	% of GDP	13.8	14.2	13.5	-
Government consumption	% of GDP	13.6	12.2	12.0	12.0
Public education spending	% of GDP	3.4	3.3	-	-
Public health spending	% of GDP	1.0	0.9	-	-
R&D expenditure	% of GDP	-	-	-	-
Military expenditure	% of GDP	0.2	-	-	-

Sources (as of October 2017): The World Bank, World Development Indicators | International Monetary Fund (IMF), World Economic Outlook | Stockholm International Peace Research Institute (SIPRI), Military Expenditure Database.

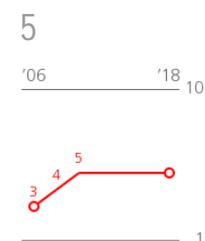
7 | Organization of the Market and Competition

Since the 1980s, Laos has made considerable progress in moving from a command 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. However, 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.

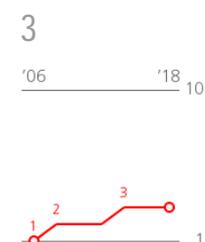
The Decree on Trade Competition (2004) provides a rudimentary framework for regulating competition and monopolies, but the Trade Competition Commission it envisaged has not yet materialized. Regulations can often be circumvented through political contacts and a number of expanding business groups depend 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.

Laos has moved steadily since the mid-1980s to liberalize foreign trade, 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

Market-based competition



Anti-monopoly policy



Liberalization of foreign trade



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

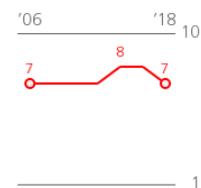
The most recent phase of deregulation is that associated with the promulgation of the ASEAN Economic Community (AEC) in late 2015. By the end of 2013, Laos had reduced 80% of goods covered by the region-wide Common Effective Preferential Tariff (CEPT) to zero, with further reductions to come as part of that process. Tariffs of 5% have been 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 (SOCBs).

Having twice been restructured and refinanced because of nonperforming loans, the SOCBs have demonstrated improved performance over the past decade. While the share of SOCB’s assets fell from 53 to 46% between 2013 and 2015 (as the share of foreign branches’ assets increased), the state-owned sector remained dominant, accounting for almost half (47%) of total bank lending. For some SOCBs, however, capital buffers were reportedly much lower than a prudential level, suggesting the sector is still at risk of distress.

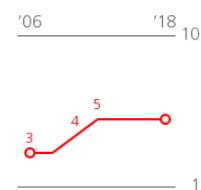
While several foreign banks have had branches in Vientiane for some time, there has been a pronounced expansion in recent years with new foreign branches entering the market, especially from China, Taiwan, Malaysia and Thailand. Foreign branches’ assets rose from about 18% in 2013 to 26% in 2015, helping the banking sector as a whole to expand from \$8 billion in 2013 to \$12 billion in 2015. However, with the number of foreign banks now standing at 40, the World Bank believes the growing banking sector poses a challenge to bank supervision.

The growth in the banking sector has continued to drive expansion in lending, though at more sustainable levels than in the past. Credit growth moderated significantly from almost 60% in mid-2012 to 11% in June 2015, before picking up again in late 2015 as a result of stimulatory measures including a reduction in the policy rate by the Bank of Laos (BOL). After sustained credit growth, the nonperforming loans ratio (NPL) started to rise. Aggregate NPL for SOCBs increased from under 3% at the end of 2012 to 8.2% in June 2014 and the capital to asset ratio dropped to an average of 3% during the same period. Although the World Bank expressed that this



Banking system

5



might have an implication on the contingent liabilities for the government, capital growth has moderated since then.

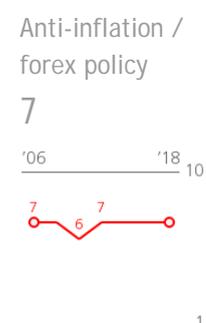
In addition, the government has overseen some important reforms in the financial sector. It strengthened key regulations in the forfeiture of assets, border declaration and penalties for non-compliant entities and is planning to launch a National Risk Assessment, as recommended by the Financial Action Task Force (FATF). These reforms helped remove Laos from the FATF’s list of “jurisdictions not making sufficient progress.” In addition, the BOL removed the minimum loan size limit to be recorded in its credit registry and expanded coverage of borrowers.

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 three more companies have been added since then. 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. Since then, it has undertaken an additional four bond issuances, most recently netting THB 11 billion (approximately \$310 million) in late 2016.

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. Since then, it has maintained an effective monetary policy. Inflation was reduced to an average of 15% between 2000 and 2003 and has remained under 10% since 2005. Since falling to zero in 2009, in the wake of the global financial crisis, annual inflation has generally fluctuated between 4% and 7.6%. In 2015, when headline inflation fell to 1.3% due to lower oil and commodity prices, the Bank of Laos (BOL) sought to stimulate demand by reducing its basic rate and making other changes that helped to reduce both deposit and lending rates by about three percentage points.

The central bank, the BOL, is controlled by the state. The bank oversees a managed floating exchange rate, aimed at maintaining nominal exchange rate stability against the US dollar. The official exchange rate tracks the free-market rate, a policy the party maintains. As a result of these policies, the kip depreciated very slightly against the dollar (1%) in 2015 compared to the previous year’s average. This represented a significant improvement from the last assessment period, when the significant appreciation of the kip in successive years led the World Bank to urge greater exchange rate stability. With regional currencies appreciating against the US dollar,



however, the kip appreciated against the Thai baht and Vietnamese dong by some 8% and 6% (year-on-year) respectively.

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. On the other hand, the party is not populist in its response to macroeconomic challenges, and decision-makers take note of expert advice. Since being warned in 2011 of the need to reign in expenditure, moreover, the outgoing government of Thongsing Thammavong and new government of Prime Minister Thongloun Sisoulith have demonstrated an increased awareness of the need for fiscal discipline. Institutionally, the government adopted a revised State Budget Law of December 2015, which provided greater budget oversight by the National Assembly and enhanced the authority of the Ministry of Finance in budget management.

As a result of these changes, the government's fiscal management improved steadily over the review period. After peaking at 29.1% of GDP in 2012 to 2013, government expenditure fell to 26.8% in 2014 to 2015. In the same period, with government revenues remaining relatively stable at between 23% and 24%, the fiscal deficit fell from 6% to 3.7%. However, with the main source of government savings being a public sector wage freeze and control on public recruitment, it remains to be seen whether this fiscal discipline can be maintained.

Laos' debt profile has continued to worsen. Total external debt (public and private) continued to rise, from about 80% of GDP at the end of 2012 to 84% of GDP in 2013. Of this, slightly more than half is public and publicly guaranteed debt (PPG), which rose from \$4.5 billion in 2012 to \$5.1 billion in 2013 (or from 47.7% to 48.3% of GDP). The corresponding net present value of PPG external debt at the end of 2013 was estimated at 39.8% of GDP, a significant increase from 32.5% of GDP in 2012. Total public debt, for which more recent data is available, reached \$7.7 billion or 65% of GDP in 2015, an increase from 60% in 2013. As a result of these increases, Laos's risk of debt distress remained moderate, but borderline high, in the 2014 Debt Sustainability Analysis.

Foreign exchange reserves increased to almost \$990 million in December 2015, an increase of \$170 million compared to a year earlier. This level is estimated to cover around 2.2 months of imports of goods and services, a significant increase on two years ago (1.3 months), but is less than 30% of foreign currency deposits and only 13% of broad money.

Macrostability

6



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 larger cities and towns, and is slowly being extended into the countryside. False and disputed claims can in theory be resolved in a court of arbitration, but are more often settled through payment of bribes to relevant officials. Nevertheless, regulation of property use rights and transfers has been an area of focus for successive governments and according to the World Bank, property registration processes are (with an average of 53 days) better than the average in East Asia and the Pacific (74 days).

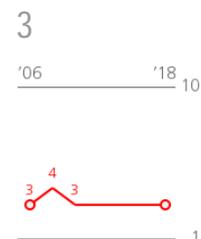
In rural areas, families possess user rights to agricultural land, which are transferable and heritable. Communities may also exercise traditional rights to non-agricultural land, including those ethnic minorities who practice shifting slash-and-burn farming. As foreign demand for land agricultural concessions 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 political support. Foreign companies sometimes pay substantial sums for such patronage. Improving the ease of doing business has been a focus for successive regimes and the country improved eight places in the World Bank's most recent Doing Business rankings in 2017. However, this still ranked Laos no higher than 160 out of 190 economies.

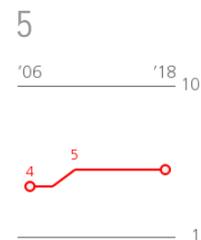
10 | Welfare Regime

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

Property rights



Private enterprise



Social safety nets

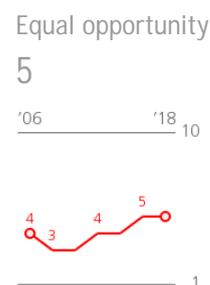
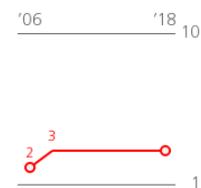


is a primary objective of government according to both the National Growth and Poverty Eradication Strategy (2004) and the latest NSEDP (2016-2020). However, implementation of these strategies has been patchy. Poverty has been reduced significantly and increased state revenue is improving livelihoods 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 extremely low (0.9% of GDP in 2014), though life expectancy at birth is improving gradually, with figures rising from 61.2 years in 2004 to 66.1 in 2014.

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 net.

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 almost 30% of the current National Assembly, this representation translates to limited power. The Lao Women’s Union, one of the more important “front organizations” of the party, remains influential and well organized but there is just one woman (among 11 members) on the all-important LPRP Politburo and just seven (out of 69) on the 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 (80% compared to 87% in 2015), and the female labor force is virtually half of the total (49.9%), 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. While the party and the army both target ethnic minorities for recruitment, the prevailing political culture puts ethnic minorities at a disadvantage. Powerful party members build patronage networks of loyal followers who benefit accordingly. Scholarships, jobs in the public service and promotions all depend on whether support can be obtained from a powerful patron. Those without such connections are at a disadvantage, no matter how talented they may be. In sum, equality of opportunity is at all levels of the political system constrained by the dependency on party membership, which is becoming more problematic as a cadre-led capitalism emerges.



11 | Economic Performance

The economy in Laos has continued to perform well with growth rates among the highest in the Asia-Pacific region. Strong and stable economic growth, averaging almost 8% per annum over the past decade – though moderating to 7% in 2015 – boosted annual output to \$12.3 billion in 2015, up from \$11.1 billion two years earlier. Meanwhile, per capita income (PPP) has more than doubled in the past decade, from \$2,630 in 2005 to \$5,676 in 2015. Most growth over this period has occurred in the industrial sector, notably hydropower and mining, though figures fluctuate from year to year. In 2015 and 2016 mining revenues were down while those earned from power generation increased markedly with all three units of the Hongsa Lignite project starting operations. Non-resource sectors, including manufacturing, tourism and services, have also posted a strong performance in the review period. Due to falling oil prices, inflation has ceased to be an immediate concern in the past two years, falling to just 1.3% in 2015 from a recent high of 7.6% in 2007.

A major driver of GDP growth has been foreign direct investment (FDI), particularly from Vietnam, Thailand and China, with the vast majority coming in the power sector. Annual FDI more than doubled from approximately \$800 million in 2010 to \$1.74 billion in 2013 and in 2014 exceeded \$2 billion for the first time.

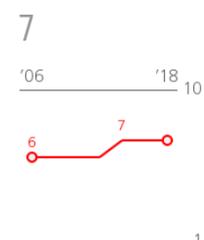
The current account deficit widened slightly in 2015 to 11.2% of GDP as lower prices on imported fuel were outweighed by lower metal prices and reduced timber exports (in response to a government crackdown to reduce illegal logging). The budget deficit declined to 3.7% of GDP in 2015, a significant improvement on two years earlier (6%). Still, public debt has continued to grow, reaching 63% of GDP in 2015 (compared to 60.1% in 2013). No reliable statistics are available to account for unemployment rates, but estimates of 2.5% would appear to be conservative.

12 | Sustainability

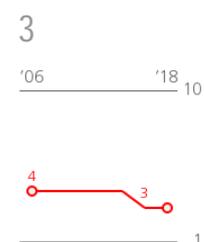
Despite signing relevant international conventions, the Lao government takes little heed of environmental concerns. It has set aside 17 National Biodiversity Conservation Areas (covering just over 10% of the national territory), where both flora and fauna are nominally protected, but its main priority in natural resource management is economic growth.

Typical of the priority placed on growth is the development of hydropower projects on the mainstream of the Mekong River. Following the controversy in 2009 to 2010 over the now near-complete Xayabury Dam, the government commenced construction of the Don Sahong Dam, situated less than two kilometers from the Cambodian border, in early 2016. It did so despite deep concerns raised by Cambodia, Vietnam and international environmental NGOs over the dam's potential impact

Output strength



Environmental policy



upon fishery stocks, and prior to the completion of consultation processes mandated by the Mekong River Commission. Later that year, the government announced its intention to proceed with a third dam on the Mekong mainstream at Pak Beng, less than 100 kilometers upstream of Luang Prabang.

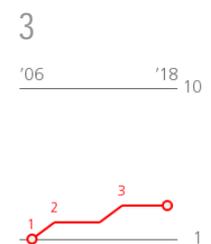
The government does express environmental concern over the swidden practices of primarily ethnic minorities, and has a policy in place of resettling them in locations where their agricultural practices can be controlled more closely. However, this effort has served as much as a means to exert state control over minorities as to protect Laos's dwindling forests. More encouragingly, in a bid to reduce rampant and widespread illegal wood shipments, one of the first steps of the new government of Thongloun Sisoulith was to issue a moratorium on the export of logs and timber. Although concerns remained over the ability and willingness of local officials to implement the decree, this crackdown represented a marked shift from the past, when various levels of Lao government turned a blind eye to widespread smuggling practices.

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 enrolment ratio, at 116% (primary), 57% (secondary) and 17% (tertiary), is better than countries such as Cambodia and Myanmar, but this is a low bar and tells only part of the story. According to the World Bank, child and adult illiteracy is a greater problem than previously recognized. An Early Grade Reading Assessment showed that over 30% of second grade children could not read a single word. In an adult literacy assessment in six locations (including Vietnam and Yunnan Province, China), adults in Laos had the poorest literacy skills among those tested. Most alarmingly, post-secondary graduates in Laos performed almost on-par with primary-educated Vietnamese.

The underlying problem is lack of investment. While public education spending increased to 4.2% of GDP in 2014, recent increases will take time to have an effect (it hovered between 1.5% and 3% between 2000 and 2010). As a percentage of the budget, education expenditure increased slightly to 15.4% in 2014 but this is still lower than before the global financial crisis (17.4% in 2007). Considering the growth of the budget, increases since 2010 (11.9% of expenditure) are not insubstantial. However, much of this growth has taken the form of wage increases for (still poorly-paid) teachers, meaning that funding for textbooks, equipment and teacher training remains very low.

Education 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. Although statistics are not available, the government does not as a rule invest in research and development.

Education policy /
R&D



Governance

I. Level of Difficulty

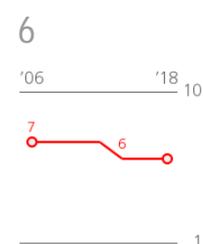
Historically, the greatest structural constraint on effective governance in Laos has been geography. Not only landlocked, the country is mountainous in the north and east, while waterfalls on the southern frontier make navigation down the Mekong River to Cambodia impossible. Infrastructure has been poorly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

In 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 fourth Thai-Lao Friendship Bridge between Houay Xai (Laos) and Chiang Khong (Thailand), which opened in late 2013, and the first Lao-Myanmar Friendship Bridge, which opened in May 2015. Navigation on the river itself has been improved and, after several years of delays, in late 2016 construction began on 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 well below ASEAN averages. Despite significant reductions over time, poverty rates remain high, especially in rural areas, with 28.8% of the population below PPP \$1.25 per day in 2012 to 2013 (or 23.2% at the national poverty line). 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 over four decades, Laos's civil society traditions are very weak. 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

Structural
constraints



Civil society
traditions

10

the Royalist period (1946-75) were disbanded. The 2009 Decree on Associations, which permitted the formation of independent NPAs, promised a new era of improved cooperation between civil society and government. However, this was disappointed in a pronounced crackdown in late 2012, and since then tight regulations and government supervision have continued 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. Recent incidents of armed violence in Xaysomboun province (near the former Hmong activities) appear to have been unrelated to those, and instead are aimed at Chinese nationals. This is of some concern given the increasing level of Chinese investment and business activity in many parts of Laos. The government bans all Christian and other religious missionary activity in Laos, 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



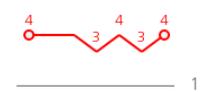
II. Governance Performance

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 “political stability,” which means preserving the current one-party system and the LPRP’s monopoly on power. This objective has been reiterated at every congress of the LPRP, held most recently in early 2016, and is also a primary objective of the five-year National Socio-Economic Development Plan (NSEDP) endorsed at each congress. The second aim, subordinate to the first, is to develop the economy and raise living standards. To this end, the 8th five-year NSEDP (2016-2020), adopted by the Tenth Party Congress in 2016, lays out strategic objectives such as reducing poverty and lifting the nation above least-

Question
Score

Prioritization
4



developed country (LDC) status by 2020. These priorities – political and economic – represent no significant change from earlier strategic plans and there is no indication that they will change course.

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. Economic development strengthens the position of the party, but if party leaders believe political and economic priorities to be in conflict, politics takes precedence, for instance in the reflexive suspicion directed at the civil society sector. While internal politics are not clear, the most influential ministries – Defense, Public Security (Interior) and Foreign Affairs – are also those most likely to prioritize “stability” over economic progress. The divergent goals of the party manifest themselves in policies such as the pilot 3-Builds (sam sang) directive, implemented since 2012. Ostensibly a measure for economic decentralization, this framework in fact aims to strengthen central party control, especially over the exploitation of natural resources.

The 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. Likewise, the lack of checks and balances means that strategic goals are frequently subjugated to rent-seeking and other corrupt practices. Encouragingly, the new government of Thongloun Sisoulith appears more intent than its predecessors on addressing corruption and government profligacy. But acting against the most powerful interests in the party and business will be challenging, and time will tell whether this trend can be sustained.

Because political survival takes precedence, the party 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 former of which is nearing completion). 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. Another example was the belated commencement of construction, despite serious economic questions, of an ambitious and expensive railway line connecting Vientiane to the southwest Chinese city of Kunming (part of China’s “belt-and-road” initiative). 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

Implementation

3

'06 '18 10



1

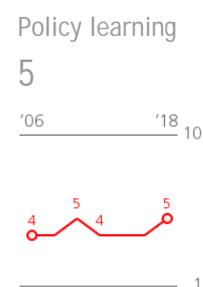
and democracy is frustrating for many donors, who argue that the Lao economy would be stronger if economic and political reforms were enacted together.

In addition, the effective implementation of endorsed policies, such as poverty reduction and improved bureaucratic efficiency, has been undermined by high 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 has been a major focus since 2012 and forms a major part of the most recent NSEDP. While the new government’s rhetoric and actions aimed at reducing budgetary waste and corruption are encouraging, it would be premature to equate these trends with improved efficiency of policy implementation.

Despite change in the makeup of the LPRP Politburo and Central Committee – most recently at the Tenth Party Congress in 2016 – the leadership’s commitment to maintaining 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 workings of a market economy, the impact of global economic forces and the motives of international organizations pressing for reform. But these are always subordinated to 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 at a number of human rights issues – notably the disappearance of civil society leader Sombath Somphone in late 2012 and the arrest of Laotian migrant workers in Thailand who criticized the regime on social media – the government has continued to flaunt its development of Laos as a “rule of law state.” 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.” And in 2015 it passed a new state budget law aimed at improving oversight of budgetary processes. On other occasions, however, it follows advice only reluctantly, especially as 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

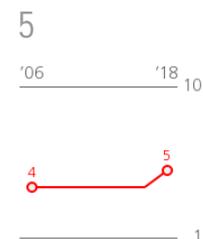
The government fails to make full use of the human, financial and organizational resources available to it. Lao political culture revolves around the competitive interests of powerful individuals, their families and their networks of political clients. At its core lies the benefits and opportunities a powerful individual can provide, by way of employment and other economic advantages. As a result, the bureaucracy is highly politicized and subject to rent seeking. Recruiting procedures are neither open, transparent nor competitive, to an extent where the most qualified and capable candidates are likely to be overlooked. Laos has a slowly increasing pool of foreign-educated, technically competent administrative personnel, but graduates are typically subject to 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 through the 3-Builds directive, the latest decentralization initiative, which aims to establish greater control over resource revenues and is a key feature of the latest National Socio-Economic Development Plan (2016-2020). Despite this program, which is in effect 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.

On the other hand, state oversight of the budget should improve with the revision of the state budget law, passed in 2015 and due to be implemented in 2017. The revised law includes several measures to improve public financial management, such as expanding the role of the National Assembly in budget oversight and enhancing the authority of the Ministry of Finance in budget management. There is also a new method for budget allocation, which is expected to improve budget targeting. These measures, which aim broadly to make the bureaucracy more accountable, represent a substantive response to the blowout in government spending in 2013, which contributed to a budget deficit that reached 6% of GDP. Nevertheless, public debt remains an area of risk for the government.

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

Efficient use of assets



Policy coordination

3

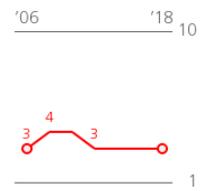
outside interference, which limits coordination and cooperation. Policy-making is frequently driven by the urge to take advantage of donor projects. Horizontal coordination is almost nonexistent. Decision-making is centralized and hierarchical, and is a prerogative that senior officials guard jealously. Even the most minor technical matters get passed up the hierarchy where decisions are made.

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. While in 2016 the party and the new government of Thongloun Sisoulith intimated the adoption of a less tolerant approach, implementing anti-corruption law will remain a great challenge, especially at the upper levels of the party where the levels of graft are presumed to be highest.

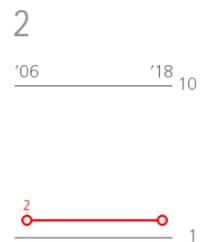
Although the regime has long made noise about corruption, implementation has proved a persistent problem. A presidential Anti-Corruption Commission did virtually nothing to improve matters, and the passage of an Anti-Corruption Law in 2005 had minimal effect. The party-controlled media frequently runs 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 also established an audit office, but it sits within the Ministry of Finance and does not function independently. More recent additions to the party-state's corruption regime, such as an enhanced assets register, appeared to make little difference. In short, the government's integrity mechanisms have not been independent and have thus failed to 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 (as 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 increasingly frequently in the National Assembly, but again, no one has disclosed any names. Anecdotal evidence suggests that the rising levels of corruption have translated into diminishing popular support for the party.

The perception of public disapproval may be behind increased pronouncements in the past two years on the need to reduce corruption and crack down on offenders. This rhetoric has come from the party itself, including at the Tenth Congress in January 2016, as well as from the new government of Thongloun Sisoulith. In December



Anti-corruption policy



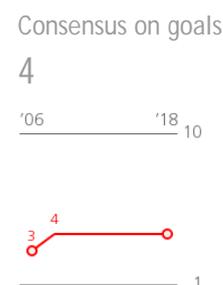
2015, the month before the congress, a former finance minister and governor of the Bank of Laos was reportedly arrested due to his involvement in so-called lucrative “ghost projects” – contracts funded but never fulfilled – though this report was based on confidential rather than public sources. At the congress itself, the party reported a “wide-ranging” campaign against corruption and provided extensive statistics on the number of members disciplined and expelled. A subsequent report by the Anti-Corruption Authority and State Inspection Commission announced that fourteen (unnamed) party units at various levels had been warned, criticized and dissolved due to corruption, and disclosed embezzlement activities totaling almost \$600 million. The regime’s anti-corruption tsar, Bounthong Chitmany, has amassed considerable power as chief of the LPRP Inspection Commission, State Inspection Commission and Anti-Corruption Authority.

These developments are yet to garner any serious response from Laos’ development partners. The principal interest groups and economic actors urging anti-corruption reforms on the Lao government are international lending agencies (IMF, World Bank, ADB), foreign governments with substantial aid programs, and foreign NGOs. Of these, the first have been most insistent in urging reform, and have had some success by attaching conditions to large loans. Japan is 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. The state and many people seem to concur that the “stability” of Lao politics is a source of pride when 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, 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 embrace growth as a means to increase their personal wealth. Entrepreneurs and the urban population place a high social value on prosperity and progress, but values



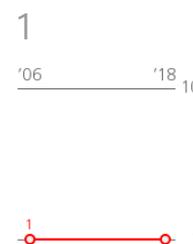
regarding the need for democracy are not accounted for. Since 2012, increased pressure on civil society organizations, some of which question the impact of the market economy on the environment and rural livelihoods, has further restricted discussions of alternative development priorities.

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 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 following his involvement in the events and aftermath of the controversial Asia-Europe People’s Forum two months earlier. 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. More recently, Lao migrant workers in Thailand were arrested on their return to Laos for posting comments on social media that were critical of the government. In all of these ways, actors of any kind that advocate greater democratization are in the minority and oppressed.

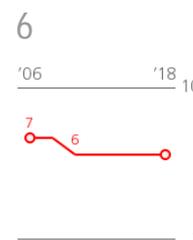
Political cleavages in Laos are rarely ideological. Rather, cleavages arise from competition for resources between powerful patrons and their clients, between provincial and regional interests, and between the dominant lowland Lao and ethnic minorities who believe they are not being equitably treated. 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 through lengthy meetings at all levels of society. From time to time, there are reports of tensions in the party between military and civilian factions, old-guard revolutionaries and new-generation technocrats, and those who lean toward China rather than Vietnam, but such reports are largely based on rumors or speculation since differences are never aired publicly.

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. Furthermore, there has been a marked tightening of civil society since 2012, when the disappearance of civil society leader, Sombath Somphone, was linked to his advocacy for other civil society advocates facing intimidation. In the wake of this incident, which attracted 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

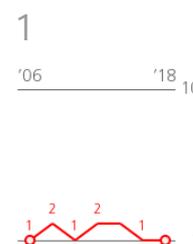
Anti-democratic actors



Cleavage / conflict management



Civil society participation



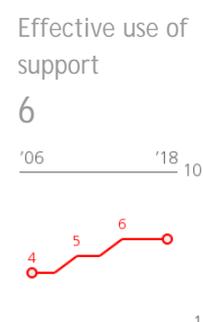
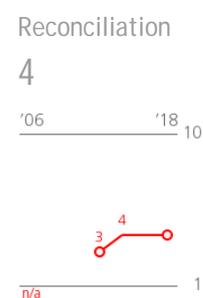
War tone, former president and party chairman Khamtay Siphandone targeted such groups with the claim that “enemy forces and groups of bad persons are attempting to sabotage and revolutionize our country through peaceful means”. Since then, regulations governing local NPAs and international NGOs have been tightened. While some professional associations exist, such as the Lao Bar Association and the 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. Although a number of interest groups maintain online communities, these too are monitored and regulations have been established to proscribe online expression of anti-government sentiments. In May 2016, three Lao workers based in Thailand were arrested for posting online comments critical of the government.

The LPRP appears to be making some effort 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.

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 not transparent, the government has more recently allowed international observers to establish contact with those resettled.

17 | International Cooperation

Laos has been remarkably successful in attracting foreign aid from across the ideological spectrum. In order to do so, it includes development partners in triennial Roundtable Meetings (RTM), which help to develop and monitor its 5-year 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

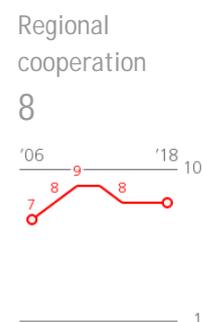
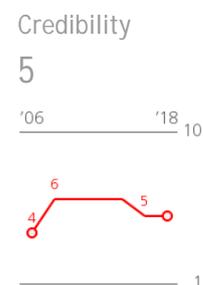


continues to demonstrate refusal to yield to international criticism in the wake of the construction of Mekong dams, even if raised by traditional allies such as neighboring Vietnam.

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 2013-2014, however, the country faced unprecedented scrutiny over its inability – or unwillingness – to mount a credible investigation of the disappearance of Sombath Somphone in late 2012. Since then, the local CSO sector has retreated and the government has tightened oversight of international NGOs. Despite the apparent deterioration of trust, however, this episode has not affected aid flows which are sustained for broader strategic reasons. Due to its isolated geographic position as the only land-locked country in Southeast Asia and its lack of economic power, Laos is not a significant actor in international for a. The “international business community” that is present in Laos, consists mostly of private or state-owned businesses from China and other Southeast Asian countries, that is, economic actors accustomed to and with experience in the kind of informality and limited unpredictability that characterizes the business environment in Laos. Because most relevant economic partners are either authoritarian governments or come from non-democratic countries, and international development agencies tend to emphasize social and economic development aims over political or democratic goals, Laos’ unwillingness to reconsider the state of human rights and democracy is not really a significant problem of international cooperation. Environmental concerns, however, have received more attention, mostly due to pressure from international cooperation partners. But as, for example, the development of dams and hydropower projects, and the ongoing deforestation indicate, the Laotian government does not seem to feel constrained in a way that would require fundamental policy changes.

Laos joined ASEAN in 1997 and puts a premium on its membership. Having long sought to balance cooperation with and autonomy from its larger neighbors, Laos appreciates the ASEAN principle of non-interference and is more comfortable cooperating with other ASEAN states than with Western countries. Together with other members, it promulgated the ASEAN Economic Community in late 2015, though Laos and other less developed members were granted more lenient terms for the reduction of tariffs. In addition, it assumed the revolving chair of ASEAN in 2016, its second time in the role after its inaugural chair in 2005. Although the government attracted negative press for cancelling the ASEAN People’s Forum (a CSO event usually held on the sidelines of ASEAN), it was generally praised for a competent performance in the chair. In particular – unlike Cambodia in 2014 – the government managed to draft a statement on the South China Sea that was acceptable to claimant nations, including traditional ally Vietnam and China itself.

Laos is also an enthusiastic member of the ADB’s Greater Mekong Subregion (GMS) scheme, which includes the Chinese province of Yunnan as well as the mainland



ASEAN states. It has embraced a number of “economic corridors” linking GMS members as a means of transforming Laos from landlocked to “land-linked.” While new highways such as the R3A, which links Yunnan to northern Thailand via northwestern Laos, have been criticized for bypassing Laos and having deleterious effects on local populations, the government’s enthusiasm for such infrastructure projects remains strong.

Despite Laos’s enthusiasm for regional integration, the country continues to retain its closest relations with its “fraternal” communist ally, Vietnam. It has also grown progressively closer to China, which not only shares a Marxist-Leninist political system (like Vietnam) but seeks to cooperate with Laos and other countries in the region as part of Xi Jinping’s signature One Belt One Road strategy. In late 2015, China launched LaoSat-1, Laos’s first communications satellite, and a year later, after several years of delays, representatives from both countries broke ground on the Kunming-Vientiane railway, which forms part of the Kunming-Singapore railway that is now part of the OBOR strategy. While press reports sometimes speculate over the relative influence of Vietnam and China in Laos – including after the most recent Party Congress in January 2016 – the LPRP continues to balance the two relationships in recognition that both are of critical importance.

On the other hand, Laos has come into disagreement in recent years with fellow members of the Mekong River Commission (MRC), established in 1995 to manage the lower basin. Since 2010, the government has pressed ahead with plans to develop a number of controversial hydropower dams on the mainstream of the Mekong River, despite protests from Cambodia, Thailand and Vietnam that it failed to observe Procedures for Notification, Prior Consultation and Agreement (PNPCA), as mandated by the MRC. The first of the mainstream dams, the Xayabury dam (north on Vientiane), is now nearing completion (estimated in 2019) and the second, the Don Sahong Dam (just north of the border with Cambodia), is under construction. In addition, the government announced in 2016 that it would commence construction on the third mainstream dam, the Pak Beng dam upstream from Luang Prabang, in 2017. Laos’s willingness to act unilaterally on the Mekong, despite the profound trans-boundary implications of doing so, strikes a vivid contrast with the country’s studious membership in ASEAN and the GMS.

Strategic Outlook

The Lao PDR has made no progress toward democracy during the past two years. Indeed, its tightening of control over civil society since 2012 has continued to reinforce repression and self-censorship. Likewise, while the ruling regime will continue to introduce reforms required of its regional and international obligations to the WTO, ASEAN Economic Community, and so on, it will undertake budgetary reforms slowly and on its own terms, with an uncertain impact on transparency and accountability.

In spite of these realities, 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, including in Laos. Investment is also flooding into the country from close ally Vietnam, 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 thus needs to be assessed under these 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 it would defy history to presume that economic development will result in political change. The small (if growing) educated and business elite has been co-opted by the party and refrains from discussing democracy, much less advocating for it. As long as the LPRP remains in power, it is 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.

With the LPRP Congress and eighth five-year NSEDP in 2016 reinforcing the status quo, 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. For this reason, even encouraging indications, such as recent pronouncements on corruption, need to be supported by greater evidence before being accepted as signs of significant change.

This is hardly an optimal situation 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 overall development benefits of more equitable economic growth.

- 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.
- 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 monopolize space.
- Publicly commend efforts by party and state bodies to enhance fiscal responsibility, reduce government waste and apply principles of good governance, particularly in the area of reducing corruption.
- Promote education as a national priority through support for the Ministry of Education, by stressing economic benefits, and by making comparisons with other ASEAN and Asian countries.

In addition, international actors should raise concerns over restrictions on civil society with government counterparts, voice these concerns publicly and internationally and urge the government to uphold its own constitution. While recognizing that it will not help to lecture the Lao government, they should not be afraid to raise cases of human rights abuse. If they are stonewalled, as in the past, they should also consider reassessing their goals in working with the Lao government.

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 development partners with a significant degree of influence.