BTI 2010 | Laos Country Report

Status Index	1-10	**3.58**	**#** 113 of 128	
Democracy	1-10	2.88	# 120 of 128	➔
Market Economy	1-10	4.29	# 98 of 128	➔
Management Index	1-10	**3.95**	**#** 100 of 128	
scale: 1 (lowest) to 10 (highest)		score	rank	trend

This report is part of the Transformation Index (BTI) 2010. The BTI is a global ranking of transition processes in which the state of democracy and market economic systems as well as the quality of political management in 128 transformation and developing countries are evaluated.

The BTI is a joint project of the Bertelsmann Stiftung and the Center for Applied Policy Research (C•A•P) at Munich University.
More on the BTI at http://www.bertelsmann-transformation-index.de/

Please cite as follows: Bertelsmann Stiftung, *BTI 2010 — Laos Country Report*. Gütersloh: Bertelsmann Stiftung, 2009.

Key Indicators

Population	mn.	**6.1**	HDI		**0.62**	GDP p.c.	$	**1993**
Pop. growth	% p.a.	**1.8**	HDI rank of 182		**133**	Gini Index		**32.6**
Life expectancy	years	**65**	UN Education Index		**0.68**	Poverty[2]	%	**76.8**
Urban population	%	**29.7**	Gender equality[1]		**0.64**	Aid per capita	$	**67.6**

Sources: UNDP, Human Development Report 2009 | The World Bank, World Development Indicators 2009.
Footnotes: (1) Gender Empowerment Measure (GEM). (2) Percentage of population living on less than $2 a day.

Executive Summary

In 2006, the ruling Lao People's Revolutionary Party (LPRP) held its eighth party congress (18-21 March). This was followed on 30 April by elections for the National Assembly, brought forward a year to synchronize the five-year cycles of the party, National Assembly and government. These two events did nothing to change the authoritarian Lao political system. Laos remains a state ruled by a single party whose principal concern is to maintain its monopoly on power. The LPRP suppresses all forms of dissent, which renders the evolution of civil society all but impossible. Given that the LPRP receives powerful political support from the communist parties of both Vietnam and China, prospects for democratic reforms are thus virtually nonexistent.

It was anticipated that the eighth party congress would bring about generational change in the ruling party. During the event, however, only party president General Khamtay Siphandone stepped down, to be replaced by his close colleague, Lt. Gen. Choummaly Sayasone. All the other aging generals remained in place, leaving the younger Bouasone Bouphavanh (subsequently named prime minister) as number seven in Politburo rankings. As one member had died in office, there were only two positions to fill. These went to the long-serving former foreign minister, Somsavat Langsavat, and to Madame Pany Yathotou, the first woman as well as first member of the Hmong ethnic minority to gain such a high position in government. The 11-member Politburo is thus still dominated by military members, none of whom are due to retire until the next party congress in 2011. Until then, the Politburo is likely to protect its interests by slowing any reforms designed to reduce corruption or make government more transparent.

Voting in Laos is compulsory, so the turnout for the National Assembly elections was predictably high. All candidates were vetted by the Lao Front for National Construction, which is controlled by the ruling party. Of the 115 deputies elected, all but two are party members. Forty-four members of the former assembly were re-elected, along with 71 new members.

Twenty-nine are women. The first task of the new National Assembly when it met in June 2006 was to appoint Choummaly as state president to replace Khamtay, thus maintaining the overlap in personnel between the ruling party and the state that has been characteristic of the Lao People's Democratic Republic since its inception in 1975. The assembly also endorsed Bouasone as prime minister, along with his party-picked, 27-member cabinet.

In his inaugural address to the National Assembly, Bouasone pledged to implement the five-year National Socioeconomic Development Plan (2006 – 2010) to grow the economy and reduce poverty, and to undertake unspecified reforms to curtail corruption. Since then, however, progress has been slow. Bouasone has streamlined foreign investment procedures, guided a law on state inspection through the National Assembly (in September 2007), and replaced the minister of finance in a minor reshuffle that also appointed four junior ministers to the office of the prime minister, all moves interpreted as attempts to limit corruption. Since Bouasone owed his position to Khamtay, however, he has had to move slowly to build his own network of political support, largely by appealing to younger party technocrats and the urban educated elite. He also reportedly enjoys the backing of Vietnam and China. But supposing he really does want to clean up corruption to some extent, he is up against powerful vested interests and a culture of corruption that is now deeply embedded in the LPRP.

Because of the balance of political power, economic reform in such crucial areas as banking, financial management (including introduction of a value-added tax), restructuring of state-owned enterprises (SOEs) and the implementation and enforcement of new laws has been slow. Reforms facilitating an improved trade regime have been more encouraging because these are driven by the need for Laos, as a member of ASEAN, to conform to its commitments under the ASEAN Free Trade Area (AFTA) agreement, and to requirements for membership of the WTO, which it hopes to join by the end of 2009. There are several reasons for the slow progress in other areas, but the principal ones are political and structural. Senior members of the ruling party lack the political will to back reforms because they fear a loss of power though limitations on opportunities for patronage that a more transparent and accountable system would bring. Senior military personnel are reportedly particularly resistant to reform.

So Laos continues to have a distorted market economy marked by weak financial institutions, uneven competition, poor transparency and political interference, and sapped by pervasive corruption. Weak institutions prevent the enforcement of laws designed to raise revenue, though as a percentage of GDP, revenue collection has risen slightly over the last three years. This has largely been due to an increase in mining taxes and royalties, and the government is expecting increased revenue from hydropower when the giant Nam Theun II hydroelectric project and other projects begin producing from 2010. A great increase in plantation agriculture and forestry, especially rubber, is also expected to bring in revenue. In the meantime the government has only limited funds to address problems of poverty, inequality, disadvantages of gender, poor provision of services and poor development of human resources. Infrastructure development, both for internal communications and as part of the greater Mekong sub-regional transport network, remains almost entirely dependent on foreign aid. So it is a primary goal of Lao foreign policy to keep such aid flowing, no matter its provenance.

History and Characteristics of Transformation

The Lao People's Revolutionary Party (LPRP) came to power in 1975 as a Marxist-Leninist regime modeled on the Democratic Republic of Vietnam. One of its first acts was to abolish the existing multiparty parliamentary democracy, replacing it with a system of "democratic centralism" managed by the party. In theory, each level of the party, from the bottom up, elects delegates to the next higher level, but in practice those controlling the higher level co-opt the delegates they want. This is what passes for democracy in Laos. Since the promulgation of a constitution in 1991 (amended in 2003), closely controlled elections for the National Assembly have regularly been held. All candidates are screened by, and an overwhelming majority of candidates are members of, the LPRP. No subsequent transition to democracy has occurred, nor is any likely in the foreseeable future.

The party also socialized the economy. All industry and financial institutions were nationalized and a program initiated to create cooperative agriculture. 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 place the transition from a centrally planned to a free-market economy.

Cooperativization was abandoned, restrictions on internal trade were removed and a free market was introduced for agricultural produce. At the same time, international trade was liberalized and foreign investment sought (at first in the form of joint ventures with the state, later in fully foreign-owned projects) Similar to China and Vietnam, but unlike the Soviet Union, this transition to a market economy took place without any corresponding political liberalization. Perestroika, but no glasnost! These changes were driven by the powerful Secretary-General Kaysone Phomvihan, who with Vietnamese support won over a majority within the party against more ideological opponents.

These policy changes required a set of supporting measures that were introduced piecemeal over the next decade. These included the elimination of microeconomic constraints limiting private production; legislation to encourage foreign direct investment, including a legal framework of commercial, trade and labor laws; closer attention to macroeconomic stability (in the form of budgetary and monetary policy, through winding down of state subsidies, reduction in the number of civil servants and introduction of a new taxation framework for revenue collection.) Between 1989 and 1997 most state-owned enterprises (SOEs) were privatized, except 30 designated as "strategic" and a few others for which there were no bidders.

By the mid-1990s, these measures were producing their desired economic effect. They improved resource allocation and spurred economic growth in the halcyon period before the Asian economic crisis, which impacted Laos in 1998 and 1999. Growth levels were a misleading indicator, however, as the country was highly dependent on official development assistance

(ODA), especially for infrastructure development, as revenue hardly covered current expenditures.

At first Laos was little affected by the financial meltdown elsewhere in Southeast Asia, largely because its economy was cushioned by a high level of subsistence agriculture. The political decision to dispense with budgetary restraint led, however, to sudden inflation and a slowing of growth that shocked the party leadership by revealing the limits of political intervention. Further reforms toward a market economy (improved financial regulation and revenue collection, transparency in procurement and a restructuring of state-owned enterprises, especially those run by the military) were either put on hold or reluctantly agreed to and then not implemented, much to the frustration of international donors who had been pressing for reform.

This has been the pattern over the past eight years, as investment steadily picked up, especially in hydropower, mining, plantation agriculture and tourism. This period of renewed prosperity 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. Despite having anti-corruption legislation, however, no senior political figure has yet been prosecuted for corruption in Laos.

It is too early to assess the impact of the global financial crisis of 2008 and a likely recession in 2009. As close to half the population still practices subsistence agriculture, however, most will be largely unaffected by an economic downturn. Yet in many Lao villages (as opposed to ethnic minorities), young people have sought work in towns or in Thailand. Some of these citizens may lose their jobs, creating hardship for their families. But recession will be most felt in the towns, where instances of social unrest could occur. This is unlikely, however, to threaten the stability of, or control by, the ruling party.

Transformation Status

I. Democracy

1 | Stateness

Monopoly on the use of force

The ruling Party has strengthened its monopoly on the use of force over the past two to three years. The Hmong insurgents who maintained their opposition to the regime after 1975 in the mountains south of the Plain of Jars were reduced to a pitiful, hunted remnant. Some escaped to Thailand, where they are resisting repatriation to Laos. Others, mostly women and children, surrendered to the authorities, whose subsequent treatment of them has been anything but transparent. There has been no recurrence of either attacks on road transport or the series of small bomb blasts in Vientiane and in the south of the country that were blamed on the Hmong between 2002 and 2005, but for which they almost certainly were not responsible.

No other ethnic or political group has taken up arms against the government. The arrest of former Hmong leader General Vang Pao in the United States in June 2007 together with a handful of co-conspirators charged with planning an armed attack in the Lao capital seems to have convinced expatriate opponents of the regime that any resort to violence will be counter-productive. And the mysterious assassination of several prominent opponents in Thailand may have convinced others of the danger of active opposition to the regime. This is not to say that there may not be armed incidents in the future, but for the present, security is such that tourists can travel safely throughout Laos.

State identity

Laos is the most ethnically diverse country in Southeast Asia. Under the former regime, the population was roughly divided into “Lao of the plains,” ”Lao of the hillsides” and “Lao of the mountain tops,” depending on language, culture and location, to eliminate racist terminology and to make the point that all are citizens of the Lao state. The present regime adopted the same usage, but it has come under criticism and language is now used as the principal distinguishing criterion. Both the nationality and race (noted on identity papers) of all 49 different ethnic groups officially recognized in the 2005 census is Lao. Chinese and Vietnamese of Lao nationality are not considered of the Lao race, though they enjoy the same civic

rights and responsibilities as set out in the constitution. The Lao diaspora are of Lao race, but not nationality. Laos does not recognize dual nationality.

Only a dwindling group of Hmong have clung to the hope of establishing an independent or autonomous Hmong homeland, with its implied repudiation of allegiance to the Lao state. But most Hmong in Laos have embraced their Lao identity, and several Hmong serve on the Lao People's Revolutionary Party Central Committee and as ministers in the government. All other ethnic minorities accept that they are Lao. Both the party and the army recruit minority members, though their representation in the bureaucracy at the national level is lower. The role of the Lao Front for National Construction (LFNC) is to integrate all minority groups in support of the regime. Hmong and some other ethnic minority groups are also represented in high levels, including the Politburo.

No interference of religious dogmas

Buddhism is the religion of 67% of the Lao population according to the 2005 census, while 2% are Christians (roughly evenly divided between Catholics and Evangelical Protestants) and the remaining 31% are animists, of one kind or another. The Buddhist Sangha (monastic order) has a widespread organizational presence throughout the ethnic Lao areas of the country, but Christian groups are limited to a few towns, where they are kept under close watch by Lao authorities who suspect them of being potential Western agents. Though the Lao constitution guarantees freedom of religion, Christians from minority groups regularly complain of persecution and are permitted no contact with churches abroad. Despite the resurgence of Buddhism over the past 15 years, the Sangha still remains under the control of the ruling Lao People's Revolutionary Party and has no political influence, though monks do enjoy social status and respect. Buddhism has come to enjoy greater favor as nationalism replaces Marxism as the dominant ideology.

Basic administration

The state's administrative infrastructure extends throughout the country, down to the village level where the village head, formerly elected, is now appointed by the provincial authorities and is in almost all cases a member of the Lao People's Revolutionary Party (LPRP), which also has a widespread network of branches. Regionalism still 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 finds it hard to enforce new policies on or to extract tax revenue from the provinces). As decentralization exacerbated these problems and increased corruption, recentralization is underway (of, for example, revenue collection and payment of officials). Most social conflict is resolved at the village level, but for more serious cases a system of courts is in place in all district and provincial capitals. New legislation is poorly disseminated and understood, but this is improving slowly. Overall, basic administration has been consolidated over the last three years.

2 | Political Participation

Free and fair elections

Elections are held every five years for the National Assembly. All citizens over the age of 18 are eligible to vote, and voting is compulsory. All candidates are vetted by the party-controlled Lao Front for National Construction before being allowed to stand. Power thus remains firmly in the hands of the party, which determines all policy matters and the legislative program.

The National Assembly elections of 2006 did nothing to further democracy in Laos. Voters did have a choice of candidates, but only a few independent candidates were allowed to run. The two who were elected are entirely sympathetic to the ruling party. Some candidates did campaign quite vigorously on local issues, but none voiced any but the mildest criticisms of the government. Nor was there any critical discussion of issues facing the country in any of the entirely party-controlled media. The fact that only 44 out of 115 deputies were re-elected does suggest that voters were prepared to toss out those they believed had failed to represent their concerns. But since all senior party members (who headed the list in each multimember electorate) were duly elected, most voters seem to have voted straight down the list, as they were urged to do by officials.

No elections take place at the local level, either for provincial or municipal administrations, or for district or village heads, though the village head may be co-opted with communal approval. Nothing has come of a proposal to hold municipal elections in four provincial centers as a pilot program to introduce a modicum of democracy into local government.

Effective power to govern

As Laos is an authoritarian, single-party, nominally Marxist-Leninist state, the Lao People's Revolutionary Party (LPRP) alone exercises power. Power lies with the Politburo of the party, not with elected members of the National Assembly, even though according to the Lao constitution the state president and vice-president and the government require majority endorsement by the National Assembly in order to take office. Though to date the prime minister has always previously been elected to the National Assembly, other members of the government need not be. In the present government, the prime minister and four deputy prime ministers are all members of the Politburo, while fourteen other senior ministers are members of the LPRP Central Committee. Their appointment is by the party, not the parliament. What has improved, however, is that members of the National Assembly have shown themselves more prepared to press the government on behalf of their constituents on such contentious issues as increasing corruption. The military is well-represented at the upper levels of the party, where the Politburo has been dominated by elderly generals for some years.

Association / assembly rights

The right to free association is guaranteed under Article 44 of the 2003 amended Lao constitution, but in practice no free association is permitted. Permission to establish any formal association must be submitted to the government, and is rarely given. There are no politically relevant civic organizations, and the few professional associations that do exist have no political influence (though they may make their views known to the government on matters of competence when requested to do so.)

Freedom of expression

All media in Laos are controlled by the ruling party through the Ministry of Information and Culture. After five years of discussion and drafting, a media law was presented to the National Assembly in July 2008, which ominously, in the words of one report, "provides legal instruments for the state and party to more effectively guide and manage the media." In no way, therefore, will it reduce government control. Opinion cannot be freely expressed in any public forum, but private criticism of the government is tolerated, so long as it does not form part of any concerted movement of dissent.

3 | Rule of Law

Separation of powers

There is a formal separation of powers in the Lao constitution between the National Assembly (legislature), the government (executive), and the judiciary, but in fact all function according to the will of the ruling Lao People's Revolutionary Party (LPRP). Separation of powers exists on paper only, for all can be overridden at the whim of Party leaders. As a result, no checks and balances apply between the three institutions of government. There is no Constitutional Court to test the validity of legislation.

Independent judiciary

The judiciary is institutionally differentiated in Laos, and there is a growing body of legal statutes. But the judiciary is not independent of the party. Most judges and officials of the justice ministry are party members, and politically influential persons routinely attempt to influence legal decisions. Bribery is widespread, especially in civil and commercial cases, but political connections are usually the deciding factor. Yet the government frequently reiterates its commitment to improve implementation of the rule of law, and small incremental improvements have been made, for at least now there is a body of laws to apply, even if they are not widely known or applied.

Lawyers may represent clients in court, and slowly a body of professional lawyers is being formed. There is a Lao Bar Association, which provides legal education, training and advice through its legal aid program. The association works closely with both the Faculty of Law and Political Science at the National University of Laos, and with the justice ministry, so it can hardly be described as an independent body.

Prosecution of office abuse

Abuse of office is widespread in Laos, where virtually anyone holding an official position, whether in the civil service or local administration, uses it for personal gain. A few minor officials have been prosecuted under the existing anti-corruption law, but none of the party leaders whose example has encouraged the prevailing culture of corruption have been investigated. Complaints taken to the police (in issues where the police are not at fault) or the Office of the Public Prosecutor usually go nowhere. There is no ombudsman in Laos.

So great has been the growth in corruption over the last few years that it has increasingly become a matter of popular resentment and comment. How to combat corruption has been discussed in the National Assembly, a debate that was reported in the press. But the press does not investigate corruption, and no names are ever mentioned. Prime Minister Bouasone has vowed to curb corruption, but so far with little effect. The worst that has happened to blatantly corrupt officials is that they have been demoted (for example, to a provincial appointment) or removed from office.

Civil rights

In principle civil rights are protected in the Lao constitution, but in practice widespread violations occur for which there is usually no redress. Rights of assembly and the free expression of political beliefs are non-existent. Religious freedom is available for Buddhists, but may be limited where religious differences are believed by the authorities to exacerbate ethnic divisions (as in the case of Khmu or Hmong Christians). 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 the violation of civil rights will produce any result, however, few formal complaints are made.

Violations of civil rights are most likely to occur to the poor and powerless in rural areas. Over the last three years, most have been violations of traditional property rights, of both ethnic Lao and minority groups, to make way for plantation forestry and agriculture. Some foreign countries (China, Vietnam, Japan, Korea and India) have obtained substantial land concessions from the central government. Other smaller companies have done questionable deals with provincial administrations, and it is at this level that many of the abuses have occurred. Local people have protested, but to little effect. Where abuses have come to light it has usually been through the activities of foreign NGOs, academics and journalists. The matter has been brought up in the National Assembly, and in 2007 the central government decreed a halt to any new land concessions, though this ruling has not been universally applied.

4 | Stability of Democratic Institutions

Performance of democratic institutions

Laos is an authoritarian, single-party state. All political power is monopolized by the Lao People's Revolutionary Party (LPRP). The National Assembly is entirely dominated by the party, as are all levels of administration. And the judiciary too functions at the will of the party. Party leaders claim, however, that a form of democracy operates within the party, known as "democratic centralism." In essence this is supposed to allow the views of grassroots party members to be channeled up the party hierarchy for party leaders to take account of in formulating policy. But the other side of democratic centralism is that all decisions by the party leadership must be unquestioningly accepted. This is hardly a democratic institution, even if it worked in practice. That said, however, discussion does occur within the party at the upper levels of power; that is, until a decision is taken by the Politburo.

Commitment to democratic institutions

The ruling Lao People's Revolutionary Party (LPRP) has demonstrated no desire or intention to introduce any political reforms that would limit its own monopoly of power. To the extent that any institution functions democratically (through the practice of "democratic centralism" within the party itself), it forms an integral part of what is an authoritarian regime. Attempts by Western governments to urge any move toward multiparty democracy are vigorously resisted, for they are interpreted as tantamount to creating conditions for regime change. In adopting this position, the LPRP has the powerful support of the communist parties of both Vietnam and China, both of which enjoy close relations with the current Lao regime.

5 | Political and Social Integration

Party system

There is no party system in Laos, just a single ruling party. Rule by the Lao People's Revolutionary Party (LPRP) has proved remarkably stable, and no events over the last three years have threatened that stability. (Party membership is estimated to be around 2% of the population.)

Interest groups

In Laos, no interest groups are permitted to function outside party control. The Lao trade union federation and organizations for women and youth are under party control. So too is the Lao Front for National Construction, which includes representatives of ethnic minorities and religious organizations (such as the monastic order Buddhist Sangha), and professional organizations like the Lao Bar Association. Indeed most social and economic interest groups (teachers, health workers and business associations) are represented at party forums by virtue of the party membership some possess. The party recruits members from among the educated elite, and even some businessmen are party members.

Consent to democratic norms

As the Lao People's Revolutionary Party seized power in 1975, only Lao citizens over the age of 50 can have any memory of a democratic multiparty system of government. For the last 33 years no Lao has been asked if he or she would prefer or supports democracy.

Associational activities

Self-organization in Lao society traditionally took the form of spontaneous cooperation at the village level on communal projects, as for example in erecting the framework of a house, building monastic accommodation or a school or health center, and particularly on a reciprocal basis at harvest time. Such organization was ad hoc; it had no institutional basis in the way that village organization does in Vietnam. Self-organization at the village level is also evident in the planning of Buddhist and other festivals. At the family and extended family level, there exists a high level of trust, which may be reduced at the village level due to personal conflict. But such levels of trust are found less frequently in wider society, where self-organization is actively discouraged by the ruling party.

II. Market Economy

6 | Level of Socioeconomic Development

Socioeconomic barriers

The Lao regime proclaims its support for both ethnic and gender equality, but such inequality is to a large extent structurally ingrained. Poverty, lack of infrastructure and poor to non-existent government services in remote and mountainous parts of the country still disadvantage ethnic minorities. During the "30-year struggle" (1945 – 1975), the government promised minorities that supported the revolutionary movement that it would improve their living standards, health and educational opportunities, but a lack of resources has meant that this promise has not been kept. The government has, however, committed itself to a long-term poverty reduction program backed by the World Bank and the Asian Development Bank designed to pull the country out of its Least Developed Country (LDC) status by 2020.

For women, the structural disadvantages are mainly cultural. Laos has a gender-related development index (2005) of 0.593, which gives it a rank of 114. Women are active in the economy (rate 74.5, which is 85% of the rate for men) and have a greater life expectancy than men (64.5 years, up from 61.9 in 2005). However they earn only two-thirds of what men do (PPP $1,385 as compared to $2,692), and increases in both their education enrollment over the same period (up from 56% to 67%) and in adult literacy for women (up from 60.9% to 77%) are substantially less than comparable figures for men. Much of this disparity is due to poverty. A boy

will be sent to school and a girl kept at home in poor families. Political participation by women as measured by the election of women to the National Assembly has increased over the last 15 years from 6% to 25% of deputies.

Economic indicators		2004	2005	2006	**2007**
GDP	$ mn.	2507.9	2761.4	3596.6	**4299.9**
Growth of GDP	%	6.4	7.1	8.1	**7.9**
Inflation (CPI)	%	10.5	7.2	6.8	**4.5**
Unemployment	%	-	1.4	-	**-**
Foreign direct investment	% of GDP	0.7	1.0	5.2	**7.5**
Export growth	%	4.7	17.7	28.6	**-4.8**
Import growth	%	26.2	14.2	3.6	**24.6**
Current account balance	$ mn.	-189.3	-192.5	49.6	**107.3**
Public debt	$ mn.	2033.6	1987.5	2242.4	**2445.9**
External debt	$ mn.	2520.7	2706.8	3037.0	**3337.1**
Total debt service	% of GNI	5.0	6.7	6.5	**5.7**
Cash surplus or deficit	% of GDP	-	-	-	**-2.9**
Tax Revenue	% of GDP	-	-	-	**10.1**
Government consumption	% of GDP	7.5	9.5	8.0	**7.9**
Public expnd. on edu.	% of GDP	2.3	2.3	3.0	**3.2**
Public expnd. on health	% of GDP	0.8	0.7	0.7	**-**
R&D expenditure	% of GDP	-	-	-	**-**
Military expenditure	% of GDP	0.5	0.4	0.4	**0.3**

Sources: The World Bank, World Development Indicators 2009 | UNESCO Institute for Statistics | International Labour Organization, Key Indicators of the Labour Market Database | Stockholm International Peace Research Institute (SIPRI), Yearbook: Armaments, Disarmament and International Security.

7 | Organization of the Market and Competition

Market-based competition

Laos has gone a long way in moving from a command to a market economy. Prices are set by the market; the Lao kip is convertible; and profits can be transferred

freely. But competition operates under a relatively weak institutional and regulatory framework, as there is no legal protection for small or medium-sized businesses that threaten to compete with an enterprise owned by someone with powerful political connections. Even foreign businesses are vulnerable to policy changes that affect the fairness of the economic environment.

Anti-monopoly policy

No rules exist to regulate monopolies. While most state-owned enterprises (SOEs) have been sold off or shuttered, the government still retains control of about two dozen businesses which it considers "strategic" or essential for national development. These businesses continue to be essentially monopolistic. Competition is permitted in some sectors, notably in the informal sector of small-scale marketing, in parts of the service sector (hotels and tourism) and where investments are foreign-owned (textiles and mining). Where commercial regulations exist, they can often be circumvented through political contacts.

Liberalization of foreign trade

Since the mid-1980s, Laos has moved to liberalize foreign trade. As a landlocked country, Laos has encouraged trade via Vietnam and China to reduce its dependency on Thailand. Tariffs have been reduced and will be reduced further now that Laos is a member of ASEAN and it has to meet the requirements of membership in the ASEAN Free Trade Area (AFTA). Negotiations on joining the WTO have continued over the last three years, and Laos hopes to become a member by the end of 2009. Import trade is competitive, but some key exports (such as timber) are controlled.

Banking system

Several foreign banks have had branches in the capital Vientiane for some time. More recently other foreign banks have entered into joint ventures with Lao banks; and the first Lao private banks have been established. These have provided models for state-owned commercial banks. In 2008, the government issued regulations on microfinance, covering deposits and credit. It is also working on a banking law and a secured transaction law with the assistance of the International Finance Corporation. There is a no functioning capital market as yet, but a bond market is planned.

The government-owned commercial banks have twice had to be restructured and refinanced because of non-performing loans, made principally to loss-making state-owned enterprises (SOEs) and politically well-connected individuals. Yet the World Bank, in its Economic Monitor of November 2008 for Laos, again warned that the level of new loans is too high. This would appear to indicate that corruption continues to plague the state banking sector.

8 | Currency and Price Stability

Anti-inflation / forex policy

Laos experienced high inflation in 1998-1999 of up to an annual rate of 110% as a result of a political decision by the government to spend its way out of the Asian

economic crisis. A macroeconomic stabilization program reduced that figure to an average of 15% over 2000-2003, which fell further to 6% in 2004 and to 4.5% in 2007. Lao monetary policy over this period indicated an awareness of the importance of keeping inflation under control. Inflation rose to 8.5% in 2008, but was forecast to fall again, unless the government runs up a substantial budget deficit a second time in response to the global financial meltdown and recession.

The National Bank of Laos (NBL) is not independent of either the government or the party. The NBL oversees a managed floating foreign exchange regime, which pegs the Laos kip to no other currency. The official exchange rate tracks the free market rate.

Macrostability

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 National Bank of Laos, or even by the Ministry of Finance, but by the Politburo, most of whose members have little understanding of macroeconomics. The party does not pursue populist measures in its response to macroeconomic challenges, but it does take note of the concern of its members. Thus the government has promised salary increases for public servants in 2009, most of whom have seen their meager incomes eroded over time. Maintaining social and political stability takes precedence in determining macroeconomic policy; but the government has been prudent in limiting its chronic budget deficit in order to not stoke inflation.

9 | Private Property

Property rights

The Lao constitution protects property rights in a broad sense, but as all land was nationalized when the current regime took power in 1975, property can be expropriated for state purposes. A land titling program has been underway in some larger towns and is being extended into the countryside. False and disputed claims have resulted, which are in theory resolved in a court of arbitration, but which are often settled through payment of substantial bribes to relevant officials. Once a land register has been completed, however, the number of such cases should decline.

In rural areas, families possess user rights to agricultural land, which can be transferred and are inheritable. Communities may also exercise traditional rights to non-agricultural land, including those ethnic minorities who practice shifting slash-and-burn farming. As the demand by foreign companies for land concessions for plantation agriculture has increased, especially over the last three years, authorities have disregarded these traditional rights. As a result in several areas popular protests have occurred, and the matter has been raised in the National Assembly. A 2007 ban on issuing new concessions has not been universally observed.

Private enterprise

Laos permits private companies, both domestic and foreign-owned, to operate, but the playing field is not yet level. Most state-owned enterprises have been privatized, but others still dominate their respective sectors (such as electricity and water, which the government considers to be of strategic importance). Government contracts are often awarded to companies with political contacts to high-ranking party members. In fact, commercial projects may not get off the ground at all without such political support, for which foreign companies may pay substantial sums. The situation is improving gradually under pressure from international donors for greater transparency in the tendering process for foreign-funded contracts, but still has some way to go.

10 | Welfare Regime

Social safety nets

No social security system is in place in Laos to alleviate poverty, or to help meet medical or disability costs; there are no elderly or invalid pensions. The only exception is for veterans of the revolutionary struggle on the Pathet Lao side, who receive payments from the Ministry of Labor and Social Welfare. The National Growth and Poverty Eradication Strategy adopted in 2004 committed the government, with the cooperation of international donors, to a program to improve living conditions for the poor. Implementation has been patchy, however. The government requires increased tax revenue to fund programs, but rather than tightening up tax loopholes and exemptions, it has been relying on increased royalties from mining.

Equal opportunity

In principle all Lao citizens, women and ethnic minorities included, have equal opportunities to access all levels of education and gain employment. In practice, however, not only does Laos remain a predominantly patriarchal society that gives greater opportunities to men than women, but there also exists a de facto ethnic hierarchy dominated by ethnic Lao. Two institutions, the party and the army, do recruit minority cadres, but women only to a limited extent. There are only three women on the 55-member party Central Committee; and minority representation is less than their proportion of the population. Moreover, the prevailing political culture disadvantages ethnic minorities. 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 disadvantaged, no matter how talented they may be.

The Lao government does recognize that some segments of the population, notably geographically remote ethnic minorities, are disadvantaged, but the few programs designed to remedy this, such as training ethnic minority teachers and paramedical staff, are quite inadequate and open to abuse by local officials.

11 | Economic Performance

Output strength

Per-capita GDP for Laos has risen to $630, thanks to growth over the last five years averaging close to 7% per annum. Most of this has been due to the industrial sector (including mining) which has been growing at double-digit figures (12% in 2007). The service sector has also been performing well. Agriculture accounts for only 40.9% of GDP even though, despite increasing urbanization, it still employs close to 80% of the population. The low figure reflects the high proportion of the rural population which practices subsistence farming. No accurate statistics are available for unemployment, which current estimates place at 2.4%, a figure that would appear to be on the low side judging by the numbers of Lao youth seeking employment in Thailand. Inflation has been contained at between 4% and 5% over the last two years, down from a high of 15.5% in 2003, while the exchange rate between the Lao kip and the dollar has remained remarkably constant over the last five years.

The Lao government has had chronic difficulty balancing its budget, in large part because it has had difficulty collecting revenue, both from wealthy individuals and from the provinces. Corruption remains a persistent problem, and the transfer of state resources to private pockets is widespread. Domestic revenue collection in 2007 was a low 14% of GDP, leaving a budget deficit of 2.7%. External debt remains manageable at 59.5% of GDP (in 2007), while foreign investment more than doubled from 2005-2006 to 2007-2008. Imports still run well ahead of exports, leaving a current account deficit of 19.1% in 2007, but a high proportion of recent imports has been for capital goods, and when current investments in hydropower, mining and plantation agriculture come into production this figure will fall. The outlook, therefore, is encouraging.

12 | Sustainability

Environmental policy

The Lao government gives lip service to environmental concerns. It has set aside 17 national protected areas (covering just over 10% of the national territory), where both flora and fauna are nominally protected. Logging controls are also in place. But enforcement of controls is sporadic at best, and logging continues, especially by the military. Major mining and hydroelectric projects are required to submit environmental impact studies, but reportedly some companies have bribed officials to overlook them. Only international pressure groups question the environmental impact of projects, since no criticism can be voiced in the entirely state-controlled Lao media. The government expresses most concern over slash-and-burn agriculture traditionally practiced by ethnic minorities, and has in place a policy of resettling them in locations where agriculture is sustainable. But this has been more to make way for logging and plantation agriculture than to protect Laos' dwindling forests.

Education policy / R&D

The quality of education in Laos, at all three levels, is very low, and the government has failed to make education a national priority. Expenditure on education was only 3% of GDP in 2006, the last year that figures were available. Textbooks are in short supply, and schools have minimal facilities and are poorly maintained. Teachers are poorly paid, and those in remote villages may not be paid for months on end. The present government has pledged to devote more resources to education, but will need to improve revenue collection to do so. A few private schools operate, especially in the capital Vientiane, where courses in languages such as English, business (management and accounting) and IT are offered. Investment in research and development is non-existent in Laos.

Transformation Management

I. Level of Difficulty

Structural constraints

The constraints on effective governance in Laos remain high, but progress is being made. Laos is land-locked, and the north and east parts of the country are very mountainous. Infrastructure has been poorly developed, making communication with neighboring countries difficult, with the exception of Thailand. Waterfalls on the frontier make navigation down the Mekong River to Cambodia impossible. Over the past decade, however, the Asian Development Bank has been pushing its concept of an interconnected greater Mekong subregion within which Laos is strategically situated. Laos now promotes itself as land-linked, rather than land-locked. Major roads cross the country from east to west linking Thailand and Vietnam, and north to south linking China and Thailand. Three bridges span the Mekong, and two more are planned. Navigation on the river itself has been improved, and feasibility studies for railways are underway.

A more significant constraint is due to the low level of development of the country's human resources. Educational levels are low as are levels of literacy. Poverty levels remain high. The Human Poverty Index value stands at 34.5; 49% of the population does not have sustainable access to an improved water source, and 40% of children under five are underweight for their age. HIV/AIDS, while low by international standards, is on the rise, while malaria and tuberculosis continue to take their toll.

SARS did not hit Laos hard, but the country has suffered a series of outbreaks of bird flu, the most recent in 2008. Droughts and floods are commonplace in Laos, but 2008 saw some of the worst floods in the last two decades. Laos still suffers the effects of war and revolution, mainly in the form of unexploded ordnance, which still maims and kills several dozen people each year.

Civil society traditions

Laos is an ethnically, linguistically and culturally divided country, where traditions of civil society were never strong. Solidarity and cooperation existed mainly at the village level, where people come together, for example, to work on communal projects or to organize a religious festival. For the first time during the

revolutionary struggle solidarity was strong among different groups. Civil society remains weak in Laos because the Lao People's Revolutionary Party (LPRP) refuses to allow the formation of any organization or association outside its control. There are no Lao NGOs, and the international NGOs that do operate in Laos are careful not to be seen to encourage any organizations or associations independent of the government. This situation has not improved over the last five years.

Conflict intensity

There are no obvious ethnic, religious or social conflicts in Laos, but this is partly because of the draconian control exercised by the ruling party. The longest running ethnic conflict was between a relatively small group of Hmong and the Lao government. The insurgents believed that the United States would support establishment of an independent Hmong homeland, but the insurgency has all but fizzled out over the last couple of years. It should be noted that several pro-government Hmong hold positions of authority in both the Lao People's Revolutionary Party (LPRP) and the government. The government bans all Christian (and any 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), and both keep a low profile. Social conflict is also minimal; what little exists is mediated by the Lao Front for National Construction at the direction of the party.

II. Management Performance

14 | Steering Capability

Prioritization

The long-term aims of the political leadership (the Lao People's Revolutionary Party Central Committee) are two-fold. The first is to retain a monopoly of power, which means preserving the current one-party, Marxist-Leninist system. This has been reiterated at every party congress, at which warnings are issued against any "evolution" toward democracy. The second aim, subordinate to the first, is to develop the economy. To this end the government has introduced a free market system, while steadfastly refusing to move toward democracy. Most state-owned enterprises have been privatized, foreign direct investment (FDI) is welcome and private enterprise is encouraged. That said, the ruling party retains a direct interest in the economy. Several "strategic" SOEs remain in state hands, and all but small-scale Lao enterprises face some form of political interference, against which most insure themselves by seeking the political protection of a powerful patron, of course, at a price.

The government is genuine in wanting to develop the economy and reduce poverty, if only to keep pace with fellow ASEAN members. This is a strategic long-term priority. But so too is political survival, and for that the party enjoys the support of both Vietnam and China. The two broad party goals are not entirely decoupled, as economic development strengthens the position of the party. But where they do conflict or where party leaders believe they do, then politics take priority.

Implementation

Because political survival takes precedence over economic development, the political leadership is reluctant to embark on reforms that it believes might undermine its political interests. Reforms to improve the functioning of the market economy (none are taken to promote democracy) are thus often agreed upon with international donors (because that is what is seen as necessary to ensure that aid keeps flowing), but then not implemented for fear they will weaken the party, or rather the political position of powerful individuals or groups within it. The point to reiterate is that for the Lao ruling party no necessary link exists between the market economy and democracy. This is frustrating for international donors convinced that the Lao economy would be stronger if both economic and political reforms were enacted. The best they can hope for, however, is a more efficient (and less corrupt) economic management.

Policy learning

The political leadership of Laos still comprises a group of aging generals who dominate the Politburo. They are poorly educated and have a limited understanding of the workings of a market economy, the impact of global economic forces or the policies of international organizations pressing for reform. But they have not been entirely inflexible, as the relative success of the market economy that has occurred over the last two decades indicates. What they understand very well is Lao politics, especially the politics of patronage. Many decisions are taken (or not taken) for intra-party political reasons that are often obscure to observers.

The political attitude that prioritizes political advantage over national economic development will be difficult to change. There is some indication, however, that Prime Minister Bouasone Bouphavanh represents not just a younger generation, but a new approach to reform. He is just as determined as any other party leader to ensure that the Lao People’s Revolutionary Party (LPRP) continues to exercise a monopoly of power, but he does seem to want to do something about corruption by improving the transparency of governance and enforcing the rule of law. The irony is that he will only be in a position to do this by building his own patronage network of reformist supporters, which is what he has been doing during the last two years.

15 | Resource Efficiency

Efficient use of assets

Lao political culture, whether in the current or former Royal Lao regime (1954 – 1975), has always primarily been about the competitive interests of powerful individuals, their families and their "clans" of political supporters. Its core lies in the patronage a powerful individual can provide, by way of employment and other economic advantages. Personnel are thus often appointed not because they are the most qualified and capable for the job, but because of their political contacts. A person too can lose a job to others if they embarrass their patrons, or if their patrons lose political influence.

Laos has a slowly increasing pool of foreign-educated, technically competent administrative personnel, but they are all too often without political influence and reluctant to take any decision that might jeopardize their position. There are no competitive recruiting procedures and the public service is highly politicized. When some decentralization took place, corruption increased at the provincial level; centrally appointed civil servants (teachers and health workers) were unpaid, and revenue was not remitted to the central government. So for the last two years recentralization has been underway for all financial matters (such as payments, taxation and customs) to increase revenue. "Leakage" still occurs, however. The government has established an Audit Office, but it sits within the Ministry of Finance and does not function independently.

Policy coordination

Policy coordination is weak, largely because of competing interests between ministries, and between central and provincial levels of administration. The staffing of ministries is highly politicized as ministers often make appointments to strengthen their patronage networks. Ministries become fiefdoms to be protected from outside interference, which makes cooperation difficult. Moreover, policy is often ad hoc, to take advantage of donor projects. Horizontal coordination is almost nonexistent because decision-making is highly centralized and hierarchical and is a prerogative jealously guarded by senior officials. Even the most minor technical matters get passed up the hierarchy for decisions that senior officials are actually too incompetent to make.

Anti-corruption policy

Corruption is ubiquitous in Laos, a chronic and growing problem that has been exacerbated by the poor example set by senior party leaders and by the rapid increase in foreign investors who buy political support and pay off provincial officials. It is fair to say that a culture of corruption has taken hold, encouraged by the political culture of patronage that operates within the Lao People's Revolutionary Party (LPRP). A presidential anti-corruption commission has done virtually nothing, and even the passage of an anti-corruption law in 2005 has not improved matters. The party-controlled media has at times been permitted to run articles railing against the existence of corruption, but without naming names. A

state inspection law passed in June 2007 was supposed to strengthen the state inspection authority charged with policing the public service to ensure than officials were not using their positions for personal gain (which almost all do). Some low-level officials have been charged, but no prosecution of any high-ranking official has taken place (unlike in Vietnam and China).

Corruption is encouraged not only 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 if the Central Committee for Control (of the party) does anything at all, it is never publicized. The problem of corruption has come up in the National Assembly, but again, discussions didn't touch on the names of perpetrators. Anecdotal evidence suggests that increasing corruption is losing the party popular support. Prime Minister Bouasone Bouphavanh has vowed to curb corruption, but whether he is able to remains to be seen, for he has powerful opponents within the Politburo.

The principal interest groups and economic actors urging anti-corruption reform on the Lao government are international lending agencies (the IMF, the World Bank, ADB), foreign governments with substantial aid programs and foreign NGOs. Of these, the first group has been most insistent in urging reform, with some success because they can attach conditions to large loans (as in the case of the $1.3 billion Nam Theun II dam). 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, and Vietnam is believed to be concerned over the corrosive effect of corruption on the LPRP. China is more equivocal, however.

16 | Consensus-Building

Consensus on goals

There is no popular consensus in Laos about the direction of either political or economic reform because all dissent is stifled and there are no avenues (free associations or a free press) in which discussion could take place. Everything is decided within the party where, however, discussion and more often old-fashioned political horse-trading may be intense. The party broadly holds a consensus that it should retain a monopoly of political power (and so oppose any reform in the direction of democracy), and that the best way to develop the economy is by permitting a free market to function. There is much less consensus on the purpose of economic development. Several senior party members seem to believe the purpose of the party is to make themselves and their families rich, rather than eliminate poverty and develop the country's human resources.

Anti-democratic veto actors

There are no opposition or dissident groups in Laos that urge the government to speed up reform. There are, however, some within the party and bureaucracy who

accept the logic of reform (at least in the economic area) and would like to see corruption reduced. Prime Minister Bouasone Bouphavanh has reportedly been trying to woo these actors over the last two years. Those opposed to reform include the military, some of whom agreed only reluctantly to free-market reforms that have already taken place, in a deal brokered by former party President Kaysone Phomvihan, that left the military free to feather their own nests. Veto powers to torpedo any reforms Bouasone might try to introduce lie within the party, exercised by those members of the Politburo who outrank him. Note that Bouasone's reforms are designed only to improve governance according to the rule of law, not to advance democracy.

Cleavage / conflict management

Political cleavages in Laos are not so much ideological as between powerful patrons and their clients, provincial and regional interests, and between the dominant lowland Lao and ethnic minorities who believe they are not being fairly dealt with. There is some tension too between the military and civilian party members. Politics is a matter of horse-trading, to decide who gets what. The party cannot eliminate these divisions, but it has been relatively effective in preventing them from escalating (through its control over all levels of administration, and of organizations such as the Lao Front for National Construction). Compromise comes naturally to the Lao, who prefer to avoid face-to-face conflict.

Civil society participation

The only voluntary associations the government permits are those associated with village life or the organization of religious festivals, or in support of education or sport. Some professional associations exist (such as the Lao Bar Association and the Lao National Chamber of Commerce and Industry), but only at the will of and under the supervision of the ruling party. The party does not encourage civic engagement by Lao citizens or solidarity among them, unless in support of itself and its policies. There is no political debate in Laos, except within the party.

Reconciliation

The ruling party has made no attempt to bring about reconciliation with those thousands of Lao who fled the country from 1975 to 1985, though unofficial meetings have taken place. Lao government officials have visited countries where there are large Lao expatriate communities. The history of revolutionary struggle is used to legitimize the regime, by damning those who left as traitors; although this kind of rhetoric has diminished over the years. Overseas Lao may visit Laos, and they may invest in Laos, provided they do not involve themselves in politics. Some have returned to live permanently in the land of their birth, but only as foreign nationals, since the government refuses to allow 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" from 1945 to 1975, by offering amnesty to all who surrendered. Those who did not accept were subject to continuing military force. The treatment of Hmong who have surrendered over the last five years has not been

transparent, and the government has prevented international observers from making contact with those who have been resettled. Hmong who fled to Thailand over this period have resisted repatriation.

17 | International Cooperation

Effective use of support

The Lao government enjoys good working relationships with a wide range of multilateral and bilateral international donors. In fact Laos has been remarkably successful in attracting foreign aid from across the ideological spectrum. The country has been less effective in marshalling this aid in support of a long-term development strategy. Partly this is because it has been determined to resist any international pressure for democratic reform, and has been suspicious of economic reform as the thin end of a political wedge. The government presents itself, however, as willing to consider and discuss economic reforms to bring about greater administrative efficiency and transparency, and has made just enough progress (at least on paper) to ensure that economic assistance continues. This is a fine line to walk, which the government has done very nimbly; but because it has been slow to implement reform programs agreed upon, many in the international community have become frustrated and suspicious of affable Lao promises.

Credibility

The Lao government is generally considered a reliable partner by other member countries of the United Nations, by international organizations and NGOs. Foreign investors are more wary. Despite having a politically stable government, commercial risk ratings agencies include Laos among the highest risk countries for investors, in large part because of its underdeveloped legal regulatory framework. Moreover, Laos ranks 164th out of 178 countries for difficulty in doing business, according to the World Bank. Prime Minister Bouasone Bouphavanh has gone some way toward rectifying these perceptions by combining planning and investment, raising it to the status of a ministry and placing one of his trusted supporters in charge (in November 2008).

Regional cooperation

Laos has been a member of ASEAN since 1997, and takes its membership seriously. Historically, Lao always understand the need to cooperate with their more powerful neighbors, to all of whom they were prepared to pay tribute simultaneously. Laos is more comfortable cooperating with other ASEAN states than it is with Western countries because of ASEAN reluctance to interfere with the internal affairs of member states. Laos is also an enthusiastic member of the greater Mekong subregion, which includes the Chinese province of Yunnan as well as the mainland ASEAN states. An extensive communications network is being constructed to link GMS members, which Laos believes will change its strategic disadvantage in being landlocked into the benefit of being land-linked. Laos also currently houses the headquarters of the Mekong River commission, and is cooperating with Vietnam and Cambodia to develop their tri-border area.

Strategic Outlook

Laos has made no progress toward democracy during the past three years; however, the regime has not become more autocratic and arbitrary. In fact there has been virtually no change in the political structure or the way power is exercised since the current regime took power in 1975. The Eighth Party Congress in 2006 made few changes to the Politburo, elected five years previously, and the military maintains its ascendancy. Control of the political process by the ruling party has not diminished. The only area of minor improvement was in law. Several new laws have been passed and some attempts have been made to bring them to the attention of the populace. But implementation has hardly improved, as the judiciary continued to act essentially as an arm of the party. Prime Minister Bouasone Bouphavanh has pledged to tackle corruption and inefficiency, but does not yet have sufficient support within the party for any reform program.

Laos cultivates good relations with all its neighbors, with fellow members of ASEAN and with Western powers, both for security reasons and to ensure a satisfactory level of official development assistance (ODA) and FDI. Most ODA comes from Japan and multilateral lenders like the World Bank and the ADB; while most FDI comes from Thailand and the West. What is remarkable is that over the last five years there has been an increasing influence over domestic matters from China. Despite exasperation over the glacial pace of political and economic reform, Western donors are reluctant to abandon Laos to the Chinese. ASEAN states have a similar concern. The outlook therefore is for economic aid to continue, but with little impact on the reform process. It is widely accepted that to use ODA as a lever to push for reforms might invite the Lao government to turn to China.

Economic development is not going to result in political change, for the tiny yet wealthy and educated elite has been co-opted by the party and knows better than to agitate for democracy. Business too has been co-opted, through the promise of sharing in the growing economy along with members of the party. All players understand how the Lao politics of patronage operates and make the necessary accommodation.

Well-targeted economic and human resource development programs may benefit some of the poorest among the Lao population, and infrastructure projects will have a long-term impact. But while the Lao People’s Revolutionary Party (LPRP) remains in power, it will continue to operate as it has always done, balancing competing interests within the party and dispensing benefits to its members in ways that are opaque to most outside observers. The outlook, therefore, is for more of the same in the years ahead. Just enough promise of reform to keep ODA flowing, with never sufficient pressure to threaten the party’s hold on power. This is hardly an optimal outcome, but it is one which Western powers, aid agencies and NGOs must live with. Within these constraints, the following strategies should be pursued:

• Keep economic reform on the agenda in two ways: by stressing the attractiveness of transparent processes for foreign investors (which has already led to improvements in processing applications and provision of supporting legislation); and by demonstrating benefits for development and economic growth where reforms have been introduced.

• Strengthen the rule of law by providing programs to support the National Assembly (workshops and exchange visits), disseminate laws that have been passed (printing costs and regional workshops), and encourage implementation through stressing the benefits to Laos.

• Promote education as a national priority through support for the Ministry of Education (curriculum workshops, producing and printing textbooks, teacher training and so on). The required change in attitude within the party should be encouraged by stressing the economic benefit to the country, and by comparison with ASEAN states and other Asian countries.

Only through a combination of improved education, implementation of the rule of law and economic development can the conditions be created for the development of civil society and a more democratic political system.