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CSIS LAOS TRIP REPORT

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In mid-October 2012, Murray Hiebert, deputy director and senior fellow in the CSIS Chair for Southeast Asia Studies, visited Vientiane, Laos, for several days to explore recent economic and political developments. This report highlights his key findings.

- **WTO accession will help Laos develop rule of law.** The World Trade Organization (WTO) announced on October 26 that Laos has completed the conditions to accede to the WTO, 15 years after first applying. Laos hopes that WTO membership will bring more trade and investment. U.S. companies don't believe the accession will provide many new opportunities beyond the market openings achieved in the 2005 U.S.-Laos bilateral trade agreement. Foreign diplomats and Lao officials say that one of the biggest contributions of the WTO accession will be helping Laos develop a modern legal system needed to integrate the small country into the global economy. The accession is also expected to help promote the rule of law in the domestic political environment. The U.S. Agency for International Development (USAID) has a capacity-building project that is helping Laos draft the necessary laws and regulations it needs to enter the WTO.
- **Uptick in U.S. company interest in Laos.** Laos's accession to the WTO has not created the same buzz as when neighboring Vietnam joined five years ago, because Laos has a much smaller economy of only \$9 billion and a market of less than 6.5 million people. Laos doesn't have the giant labor force that Vietnam has for low-cost manufacturing. Nonetheless, small and medium-sized U.S. service companies, soft drink manufacturers, car firms, and mining outfits are coming to explore business opportunities as much because of the country's recent economic growth as its joining the WTO. The biggest U.S. firm is RMA Lao, which sells Land Rovers and large Japanese construction and mining equipment. A Thai dealership has been selling Caterpillar products for years for the mining and construction sectors. Following Secretary of State Hillary Clinton's visit in July, a small affiliate of the American Chamber of Commerce (AmCham) in Thailand opened a branch in Vientiane. One U.S. investment that has not gone well is that of gaming firm Savan Vegas, which is in a dispute with its Lao partner over the latter's recent alleged takeover of the venture's slot machine club near Vientiane. Lao-U.S. two-way trade last year totaled \$85 million, with U.S. exports reaching \$26 million.
- **Economy growing.** The Lao economy has picked up momentum over the last three or four years, growing some 7.5 to 8 percent a year. There are many more cars plying the streets of Vientiane, a construction boom is creating

more tall buildings, more hotels, and large shopping malls, and more tourists are filling restaurants in the capital. In preparation for Laos hosting the Asia-Europe Meeting (ASEM) in early November, which will be attended by senior officials from roughly 50 Asian and European countries, China built a giant new convention center north of the capital and is completing 50 villas to house the leaders in a new development area along the Mekong River called Vientiane New World. China is also building a new World Trade Center near the Morning Market. Outside of the capital, little has been done to upgrade the country's road infrastructure, and the health and education sectors are still woefully underfunded. Official development assistance provides roughly 70 percent of the Lao budget. Hydropower sales to Thailand, the extractive industry (particularly copper and gold), and tourism are Laos's biggest money generators.

- **National Assembly more politically active; improvement in religious freedom.** Until recently, few observers paid much attention to the National Assembly, the country's parliament, because it was little more than a rubber stamp for the ruling party. In recent years, lawmakers have become more active, particularly in questioning ministers about various programs and problems. One of the most active legislators is Ms. Souvanpheng Bouphanouvong, who chairs the Economic, Planning, and Finance Committee of the National Assembly and is giving oversight to Laos's accession to the WTO. In another sign of more openness, the National Assembly has opened a phone-in line that citizens can use to call about problems. The biggest complaints are about land grabbing by local officials and local and foreign investors.

U.S. officials believe the government, particularly at the central level, has improved its treatment of religious minorities in recent years, although reports continue to emerge of harassment by provincial officials of Christians in remote areas. The government earlier this year shut down a radio talk show that included calls from listeners complaining about land grabbing, but the host has not been detained.

- **U.S.-Lao relations are best in decades.** The visit by Secretary Clinton, the first by a U.S. secretary of state in nearly 60 years, symbolized how far the two countries have come since the end of the war in 1975. Lao deputy prime minister Thongloun Sisoulith in 2010 became the highest ranking Lao official to visit Washington since the 1970s. The two countries have exchanged military attachés, and Lao officials no longer accuse the United States of supporting antigovernment forces, particularly from the Hmong minority, through Thailand. Lao cooperation in the search for servicemen missing from the war continues, and the U.S. Congress recently increased funding for clearing unexploded ordnance to \$9 million in FY2012 and recommended \$10 million for FY2013.
- **China's role has increased dramatically.** China is competing head to head with Vietnam for influence in Laos. The two countries have been rivals in recent years as the biggest foreign investors in Laos, although China appears to have pulled ahead since Vietnam has suffered an economic slowdown at home. Laos has frozen new mining licenses in recent months, and the common off-the-record explanation in Vientiane is that this was prompted by concerns that China is getting too many mining concessions. The two largest copper mines in Laos are operated by Australian companies, although one of these mines was recently purchased by a Chinese state-owned

enterprise. China has been granted large land concessions in the north to plant rubber, sugarcane, and cassava, while Vietnamese companies grow similar crops in large agricultural projects in the south. China has pulled out of a \$7 billion high-speed train project linking the Thai and Chinese borders through Laos, apparently because Beijing concluded that the project wasn't economically viable unless it received more extensive land concessions. The Lao government has announced that it will continue the project with a loan from China's Export-Import Bank.

- **Relations with Thailand significantly improved.** Thailand remains Laos's largest trading partner. The border tensions common after the communist victory in 1975 have ended. Lao officials say there haven't been any military clashes in the past decade. Thailand three years ago returned the last of the Hmong refugees in Thailand, ending a longstanding irritant in their bilateral relations. The international community has carefully monitored the treatment of the 4,500 Hmong who returned and generally found that they have been treated fairly well. Thailand's biggest investments are in hydropower dams producing energy for the Thai electricity grid.

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