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# LAOS IN 2002

## *Regime Maintenance through Political Stability*

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### Abstract

In 2002, Laos emerged from a period of economic turbulence and political insecurity. The economy showed signs of recovery from the 1997–98 Asian financial crisis. But economists noted some worrying long-term trends. Foreign donors demonstrated their confidence by continuing to provide development assistance. Domestic insurgency appeared on the decline. In February, Laos conducted trouble-free national elections. The Lao government also made some positive adjustments in its treatment of Christian minority groups. Externally, Laos gave priority to reinforcing relations with its immediate neighbors, Vietnam, Thailand, and China. The Lao People's Democratic Republic (LPDR) is one of the world's least-developed countries and one of the last remaining socialist states in Asia. During 2002 the one-party regime continued to consolidate its hold on power. Domestic insurgency fell and there was no renewal of the urban bombing attacks that struck Laos in 2000–01. The Lao economy continued to recover from the aftershocks of the 1997–98 Asian financial crisis, although serious structural problems remained. No serious problems emerged in Laos's external relations. Bilateral relations with Vietnam were further strengthened.

### Political Stability

On February 24, 2002, Laos held elections for the National Assembly. The ruling Lao People's Revolutionary Party (LPRP) approved a slate of 166 candidates to contest 109 seats, an increase of 10 from the previous legislature. The average age of candidates dropped by 10 years to 51. Twenty percent of the candidates were women and 34% were university graduates, an increase in both categories. No overseas observers were

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allowed to witness these elections, and the foreign media was forced to confine its observations to the political campaign in Vientiane. According to candidate reports, the main issues voiced by voters concerned “official corruption, the slow pace of development, and the poor quality of health and education.”<sup>1</sup>

According to the official results, 99.23% of the 2.5 million eligible voters went to the polls. All but one of the 166 candidates were members of the ruling LPRP. Fifty-three high-ranking party incumbents, mainly members of the Central Committee and Politburo, ran for reelection. Forty-one members were returned, while 12 lost their seats to local party leaders. On April 9, the fifth National Assembly reelected General Khamtay Siphandone as president of the LPDR for a five-year term. It then approved a 23-member cabinet headed by Prime Minister Bounyang Vorachith. Vorachith, the former minister of finance, is widely regarded as a close student of Chinese economic reforms.

In September-October, the National Assembly held its second session to approve the budget and socioeconomic plan for 2002–03. The National Assembly also approved an ambitious agenda for the legislative session involving over 31 draft bills. The draft Mass Media Bill includes a provision for private ownership as well as strict regulatory provisions. The legislature also endorsed plans to build the controversial Nam Theun-2 hydropower station, a project valued at US\$1.1 billion.

## Worrying Economic Trends

After his election, Prime Minister Bounyang Vorachith pledged to end opium production by 2005, eradicate poverty, and triple per capita income to \$1,200 per annum by 2020. The Lao economy grew at 5.7% during the fiscal year ending September 30. Although this was a slight rise from 5.5% the previous year, it was below the target of 6.5%. Increased gross domestic product (GDP) growth was not due to any rise in agricultural or industrial productivity, but mainly to investment in a number of infrastructure projects.

Foreign direct investment increased by 11 times. This amounted to \$494 million earmarked for 84 projects, primarily in the energy sector (73%). In July, the Lao government announced its intention to launch its first communications satellite sometime in early 2004. Laos hopes to earn fees from Internet hookups and by renting the satellite to broadcasting companies covering the 2008 Olympic Games in China.<sup>2</sup> The Lao government attempted

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1. Jonathan Head, “Communists Dominate Laos Vote,” BBC News Asia-Pacific, February 24, 2002. <<http://news.bbc.co.uk>>.

2. “Laos Says to Launch First Satellite within 2 Years,” Reuters, July 8, 2002.

to revive foreign investment by offering tax incentives for joint ventures in mining and forest products.

A report by the International Monetary Fund (IMF), dated July 29, 2002, concluded that Laos's "economic performance has improved considerably since 1999."<sup>3</sup> Nonetheless there were some worrying trends. Total external debt accounted for 69% of Laos's \$1.6 billion GDP in 2001 and, despite new credit controls, lending by state-owned banks increased sharply in the first half of 2002 "possibly due to irregular lending."

Laos has still not carried out thorough-going structural changes. The government, for example, continues to subsidize state-owned enterprises. The government's interventionist policies have prevented free-market forces from playing their full potential. Some government policies appear counterproductive. For example, when the IMF and donor community pressured the Lao government to increase revenue collection, the government raised tariffs on goods imported from Thailand. This resulted in an increase in smuggling and a doubling of inflation.

According to a report presented at a meeting of the government in October, Laos suffered from "poor management of foreign aid and loans and has been unable to reach some macro-economic targets."<sup>4</sup> Modest progress was reported in reducing the area used for opium cultivation and production. A Western embassy in Vientiane, in an internal assessment dated October 10, noted that "the (economic) trend is disturbing."<sup>5</sup> The Lao currency, the kip (valued at 10,750 to the U.S. dollar) was falling in value, foreign investment was declining, and there was a shortfall in revenue collection. Reportedly, the government was unable to meet salary payments to some state employees.

Laos remains heavily dependent on aid. In 2001–02, Laos received \$238 million in non-refundable aid and \$140 million in official development assistance from foreign countries and international financial institutions.<sup>6</sup> This amounted to nearly 24% of GDP. The Asian Development Bank remains the largest aid donor, with an annual package valued at \$80 million. Other donors include Australia, Belgium, the European Union, France, Germany, the IMF, Japan, South Korea, Sweden, and Vietnam.

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3. Quoted in Bertil Lintner, "Laos: Stalled Reforms," *Far Eastern Economic Review*, November 7, 2002, p. 49.

4. "Economy Expanding but Management Lacking: Govt Report," Khaosan Pathet Lao [Lao National News Agency], October 29, 2002.

5. Lintner, "Laos: Stalled Reforms," p. 49.

6. "Foreign Investment in Laos Increases in 2001–2002," Vietnam News Agency, October 15, 2002.

## Society and Internal Security

The internal security situation showed an improvement during the year. Vientiane-based diplomats reported only two dry-season attacks, both in Xieng Khouang Province. Security assessments indicated that the incidence of insurgency and banditry had declined in such traditional hot spots as the Xaysamboun Special Zone, Xieng Khouang Province, and along Route 13 in northeastern Vientiane Province and southeastern Luang Prabang Province. Several hundred insurgent families in the Xaysamboun area were reported to have surrendered to government authorities, and civil administration was restored to several districts.<sup>7</sup> The Xaysamboun Special Zone has been under direct military control since 1994. In July, Vietnam announced that it was committing \$35.9 million in aid over a three-year period for the development of the Xaysamboun Special Zone. Foreign observers reported that Vietnam ceased deploying troops to Laos to assist the government in suppressing anti-regime insurgents in 2000.<sup>8</sup>

In 2002 Laos's human rights situation once again attracted international scrutiny and criticism. In mid-year, Amnesty International (AI) issued a report stating that "[a] bleak picture has emerged of arbitrary detention, lack of judicial oversight, little or no access to medical facilities, and appalling cruelty by prison officials."<sup>9</sup> The AI report specifically alleged that "suffering, ill-treatment and torture" were routinely inflicted on prisoners on the basis of eyewitness testimony.

In June the first delegation of Lao religious leaders visited the United States at the invitation of the U.S. Congress. In discussions, the Lao officials promised to resolve religious issues at the highest levels. Shortly after their return, 34 Christian prisoners were released. On July 15, the Lao prime minister promulgated a decree on religious activities in Laos that hemmed in guarantees of religious freedom with numerous administrative and legal restrictions.<sup>10</sup>

These developments generally earned Laos a positive assessment. The U.S. Department of State's annual report on international religious freedom

7. U.S. Department of State, "Laos: Consular Information Sheet," May 16, 2002. <<http://travel.state.gov/laos.html>>; "Leader of U.S. Secret War Veterans in Laos, Moua Toua Ter, Reports Buildup of Communist Forces," Fact Finding Commission of the U.S. "Secret War" Veterans, September 2, 2002. <[www.factfinding.org](http://www.factfinding.org)>; and "In Laos, a Shift in Government," Strategic Forecasting Intelligence Brief, July 2002. <<http://www.stratfor.com>>.

8. Steve Kir, "Vietnam to fund Lao Army's Development of Rebel Stronghold," Agence France Presse, April 11, 2002.

9. Amnesty International, "Lao People's Democratic Republic," July 25, 2002. <<http://web.amnesty.org>>.

10. Robert A. Seiple, "Speaking Out: The USCIRF Is Only Cursing the Darkness," *Christianity Today*, October 14, 2002, and *ibid.*, "Decree for the Administration and Protection of Religious Activities in Lao PDR," July 5, 2002.

stated, for example, that “[t]he Government’s poor record of respect for religious freedom improved moderately during the period covered by this report.”<sup>11</sup> Elsewhere, the report noted that “the LFNC (Lao Front for National Construction) took measures during the period covered by this report to mitigate the arbitrary behavior of local authorities in some areas where harassment of Christian religious minorities had been most severe.” The report also noted that the number of forced Protestant church closings was on the decline, and churches closed previously had been permitted to reopen.

In October, on the third anniversary of the suppression of a pro-democracy gathering in Vientiane by Lao students and teachers, five members of the Italian-based Transnational Radical Party, including one deputy in the European Parliament, sent an open letter to world leaders. This letter called their attention to the plight of five Lao activists who were arrested in 1999 and later sentenced to prison.<sup>12</sup> Amnesty International demanded the release of these activists, whom it classified as prisoners of conscience.<sup>13</sup> Lao authorities denied these allegations.

## External Relations

Vietnam and Laos continued to exchange a high volume of delegations representing party, state, military, and mass organizations. In January, for example, deputy prime ministers from Laos and Vietnam held the 24th meeting of the Inter-Governmental Committee for Economic, Cultural, Scientific, and Technical Cooperation in Vientiane. Both sides agreed to promote trade, investment, production, and business contacts. A bilateral agreement on cooperation in education and training and a protocol on Vietnamese aid to Laos were also signed.

In May, President Khamtai Siphandone paid an official visit to Vietnam where he consulted with all of Vietnam’s top leaders. The final communiqué emphasized the comprehensive nature of the bilateral ties, and gave particular stress to trade and economic cooperation. The two countries also reaffirmed their commitment to the Vietnam-Laos-Cambodia Development Triangle and infrastructure development such as the East-West Corridor, a road network linking Vietnam, Laos, Thailand, and Myanmar.

During the year, Laos and Vietnam celebrated the 25th anniversary of the signing of the Agreement on Friendship and Cooperation (July 18) and the 40th anniversary of the establishment of diplomatic relations (September 18).

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11. U.S. Department of State, Bureau of Democracy, Human Rights, and Labor, “Laos,” *International Religious Freedom Report 2002*. <<http://www.state.gov/g/drl/rls/irf/2002>>.

12. Transnational Radical Party, “Third Anniversary of the 26 October 1999 Movement: Open Letter,” October 15, 2002, <<http://www.vientianetimes.com>>.

13. Amnesty International Press Release, “Laos: Torture, Ill-Treatment and Hidden Suffering,” ASA 26/003/2002, July 26, 2002, <<http://web.amnesty.org>>.

In August, in a followup to the Lao president's earlier visit, the deputy prime ministers of the two countries signed the "Vientiane Agreement 2002," a document that sets out a framework for future cooperation in commerce and investment.

In October, officials from Vietnam and Laos met in Vientiane for their 12th meeting to discuss the implementation of their border agreement and the increasingly violent confrontations between smugglers and border guards. A particularly serious incident occurred in April when a convoy of 50 trucks confronted Vietnamese officials and forced entry into the country.

Border issues dominated Thai-Lao relations. In June, at a meeting of the joint Border Security Cooperation Committee in Bangkok, Thailand agreed to extradite seventeen Lao nationals who sought refuge in Thailand following an unsuccessful attack on a Lao border post in July 2000. In August 2002, it was agreed to conduct boundary inspections on an annual basis.

Prime Minister Bounyang Vorachith paid an official visit to China in February at the invitation of Premier Zhu Rongji. India's Prime Minister Atal Bihari Vajpayee paid a two-day visit to Laos in November. The two sides signed agreements covering trade and defense cooperation. India also announced the extension of a \$10 million line of credit on preferential terms.

In July Laos handed over the remains of one American soldier who died in action during the Vietnam War. U.S. Deputy Assistant Secretary of Defense Jerry Jennings visited Laos in October to discuss further cooperation in locating the remains of American soldiers missing in action.

In mid-December, in an unprecedented change of policy, the Lao government announced plans to declare January 5 a public holiday to commemorate King Fa Ngum, who had unified Laos and founded the Lan Xang Dynasty in the fourteenth century. When the LPRP seized power in 1975, they forced King Savang Vatthana to abdicate and two years later forced him into internal exile. He reportedly died of malaria in 1984. Members of the royal family sought refuge in France. Despite the LPRP's attempts to eradicate the monarchy, ordinary Lao people have kept the memory of their king alive.

Several motivations prompted this extraordinary turn of events.<sup>14</sup> The LPRP is clearly appealing to the symbols of monarchy and Lao nationalism as a new basis of regime legitimization. Reviving respect for the Lao monarchy also serves to build bridges to the overseas Lao community to attract their skills and money to assist development. Finally, the LPRP is also countering Thailand's cultural influence that has led to a rise in popularity of the Thai king and royal family by ordinary Lao.

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14. Vaudine England, "Royal Symbolism Is Embraced amid Communist Ideology in Laos," *South China Morning Post*, December 19, 2002.

Laos ended the year with a burst of diplomatic activity. In December, the Lao defense minister and deputy prime minister, respectively, visited China and Japan. A high-level LPRP delegation held discussions on external relations in Hanoi, while Vietnam's new vice president visited Vientiane.

### Conclusion

The LPRP in 2002 further consolidated its hold on power by carefully controlling the pace of political change through national elections and the selection of new leaders to head the government. Although the economic picture was mixed, it is clear Laos has begun to recover from the 1997–98 regional financial crisis. Political and religious dissent as well as domestic insurgency appear to be on the wane. Externally, Laos maintained a trouble-free balance in its external relations. There were no manifestations of intra-party tensions along pro-China and pro-Vietnam lines. By maintaining political stability and attracting external support, the Lao regime has positioned itself to maintain power.