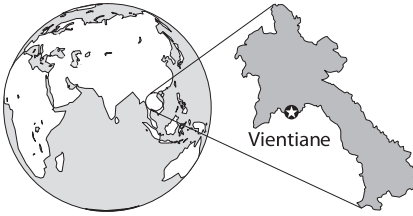


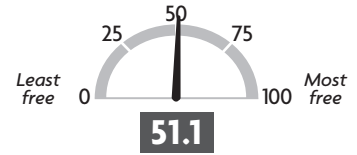
# LAOS



World Rank: **138**

Regional Rank: **30**

## Economic Freedom Score



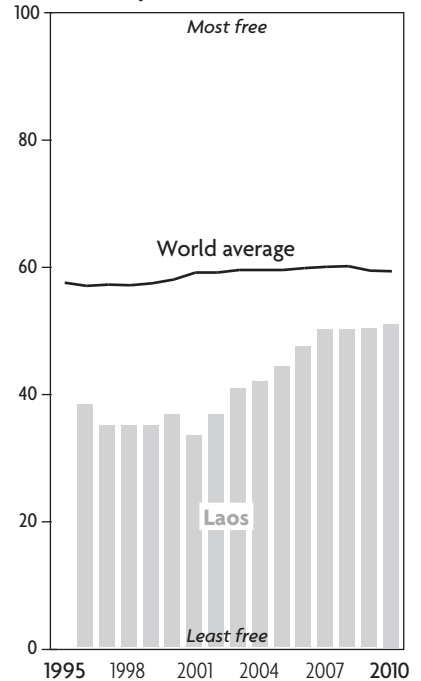
Laos's economic freedom score is 51.1, making its economy the 138th freest in the 2010 *Index*. Its overall score has improved by 0.7 point, reflecting improved scores in five of the 10 economic freedoms. Laos is ranked 30th out of 41 countries in the Asia-Pacific region, and its overall score is below the world and regional averages.

The Laotian economy scores relatively well in fiscal freedom, government spending, and trade freedom. Although progress has been sluggish, the government has taken steps to modernize and reform the trade regime and management of public finance. Tariff barriers have been reduced, but significant non-tariff barriers remain. The government's responses to the economic slowdown, which have included suspension of a new value-added tax and improved expenditure management, have been consistent with reform efforts.

Many institutional challenges continue to have a negative effect on overall economic freedom and growth. The development of a more vibrant private sector is hindered by poor infrastructure, cumbersome regulations, and limited access to financing. The rule of law does not always hold against political influence, and corruption is rampant. Burdensome business regulations impede entrepreneurship, and regulatory as well as legal enforcement are in the hands of an opaque bureaucracy.

**BACKGROUND:** Laos is governed by one of the world's few remaining Communist regimes and is also one of Asia's poorest nations. Upon coming to power in 1975, the Communist government imposed a rigid socialist program that had a devastating impact on the economy. The government began to liberalize slowly in 1991, but with only limited success. The country remains highly dependent on international aid and suffers from high levels of corruption and weak rule of law. Basic human rights are still heavily restricted. In 1998, Laos began formal negotiations with the World Trade Organization with an eye to joining the WTO by 2010.

## Country's Score Over Time



## Quick Facts

**Population:** 6.2 million

**GDP (PPP):** \$13.2 billion

7.5% growth in 2008

7.5% 5-year compound annual growth

\$2,134 per capita

**Unemployment:** 2.4% (2005)

**Inflation (CPI):** 7.6%

**FDI Inflow:** \$228 million

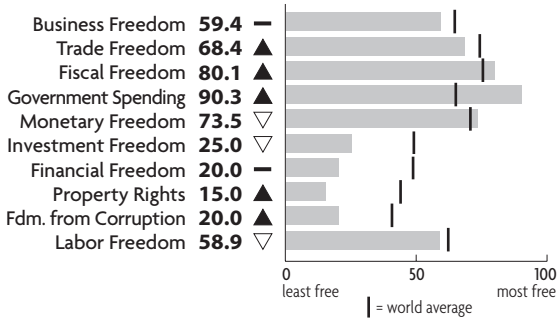
2008 data unless otherwise noted

Data compiled as of September 2009

## How Do We Measure Economic Freedom?

See page 457 for an explanation of the methodology or visit the *Index* Web site at [heritage.org/index](http://heritage.org/index).

## LAOS'S TEN ECONOMIC FREEDOMS



### BUSINESS FREEDOM — 59.4

The overall freedom to start, operate, and close a business is restricted by Laos's regulatory environment. Starting a business takes an average of 100 days, compared to the world average of 35 days. Obtaining a business license requires more than the world average of 18 procedures. Modern bankruptcy proceedings have not been fully developed.

### TRADE FREEDOM — 68.4

Laos's weighted average tariff rate was 8.3 percent in 2007. There has been some liberalization, but prohibitive tariffs, import bans and restrictions, import taxes, restrictions on services market access, import licensing, corrupt and inefficient customs administration, and weak enforcement of intellectual property rights still add to the cost of trade. Fifteen points were deducted from Laos's trade freedom score to account for non-tariff barriers.

### FISCAL FREEDOM — 80.1

Laos has a moderate income tax rate and a relatively high corporate tax rate. The top income tax rate is 25 percent, and the top corporate tax rate is 35 percent (20 percent for companies that fall under the Foreign Investment Law). Other taxes include a vehicle tax and a tax on insurance contracts. A value-added tax (VAT) introduced in January 2009 was suspended in March following pressure from the private sector. In the most recent year, overall tax revenue as a percentage of GDP was 12.0 percent.

### GOVERNMENT SPENDING — 90.3

Total government expenditures, including consumption and transfer payments, are low. In the most recent year, government spending equaled 18.0 percent of GDP.

### MONETARY FREEDOM — 73.5

Inflation has been relatively high, averaging 6.8 percent between 2006 and 2008, but has slowed in 2009, owing to a sharp decline in global prices for food and fuel. The government influences many prices through state-owned enterprises and utilities and sets the price for fuel products. Ten points were deducted from Laos's monetary freedom score to account for policies that distort domestic prices.

## INVESTMENT FREEDOM — 25

Foreign investors may not engage in business activities that are deemed detrimental to national security, have a negative impact on the environment, or are regarded as harmful to health or national traditions. Foreign investors must submit project proposals for screening and approval by various levels of government. Investors must obtain a number of certificates, secure a license, and surmount other bureaucratic hurdles before gaining permission to operate. Arbitrary regulation, weak and inconsistent contract enforcement, and non-transparent bureaucracy inhibit investment. Residents and non-residents may hold foreign exchange accounts subject to restrictions and government approval. Some payments and transfers face quantitative restrictions or require indirect government approval. Foreign investors may lease but not own land.

### FINANCIAL FREEDOM — 20

The financial system is underdeveloped and subject to heavy government involvement. High credit costs and scarce access to financing severely impede entrepreneurial activity and private-sector development. Much of the population remains outside the formal banking sector. Supervision and regulation are weak. Three state-owned banks dominate banking, accounting for more than 50 percent of assets. Activities of the 10 private and foreign banks are limited. A banking law passed in late 2006 permits foreign banks to set up branches in all provinces of Laos. The government directs credit allocation, and the central bank is not independent. Capital markets remain underdeveloped, but the government plans to open Laos's first stock market in 2010.

### PROPERTY RIGHTS — 15

The judiciary is not independent, and judges can be bribed. Foreign investors are generally advised to seek arbitration outside of Laos, since the domestic arbitration authority cannot enforce its decisions. Foreign investors may not own land but may lease it with government permission. There is no copyright system. An intellectual property law drafted in 1996 with help from the World Intellectual Property Organization is still pending.

### FREEDOM FROM CORRUPTION — 20

Corruption is perceived as rampant. Laos ranks 151st out of 179 countries in Transparency International's Corruption Perceptions Index for 2008, a slight improvement over 2007. Bribery of low-level officials to expedite business licenses and import permits is common, and there is growing anecdotal evidence of more pervasive corruption among higher-level officials within the executive and judicial branches.

### LABOR FREEDOM — 58.9

Laos's labor regulations are relatively inflexible. The non-salary cost of employing a worker is low, but dismissing an employee can be costly and difficult. Changes in work hours can be challenged.